CURRENT ISSUES RELATIVE TO FARM CREDIT

HEARING

BEFORE THE

SUBCOMMITTEE ON
GENERAL OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

DECEMBER 20, 1985

Serial No. 99-71

Printed for the use of the
Committee on Banking, Finance and Urban Affairs

U.S. GOVERNMENT PRINTING OFFICE
59-074 O WASHINGTON : 1986

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H241-44

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CONTENTS

WITNESSES

Page

- Bennett, Charlie, chairman and president, the Farmers Bank of Hardinsburg, KY 72
  - Prepared statement 75
- Boswell, David, commissioner, Kentucky Department of Agriculture 52
  - Prepared statement 54
- Burchard, Forrest 100
- Burnette, Ward "Butch," State representative, Fulton, KY 11
- Dickinson, Richard, Jr., Guthrie, KY 94, 103
  - Prepared statement 105
- Esche, James P., Henderson, KY 66
  - Prepared statement 67
- Frick, Don, Boaz, KY 175
  - Prepared statement 177
- Hale, W.L., III, president, the Exchange Bank, Mayfield, KY 107
  - Prepared statement 111
- Hornback, David, president, Federal Land Bank Association of Mayfield, KY 157
- Larkins, Thomas, Clinton, KY 119
  - Prepared statement 124
- McBride, L.M., chairman and chief executive officer, City National Bank of Fulton, KY, past president, Kentucky Bankers Association 46
  - Prepared statement 78
- Magness, Charles, Jackson Purchase Production Credit Association 161
- Miller, Gene Ray, senior vice president, the First National Bank of Mayfield, KY 128
- Owens, Warren, Bardwell, KY 88
- Pettit, George, Princeton, KY 98
  - Prepared statement 98
- Powell, Victor R., executive vice president, Bank of Benton, KY 114
- Ralph, Dalton, Hartford, KY 179
- Rice, Harold, Hickman, KY 168
  - Prepared statement 170
- Rogers, Jimmy L., Cadiz, KY 112
  - Prepared statement 113
- Samples, Gordon, Clinton, KY 132
  - Prepared statement 135
- Schlader, R.C., president and chief executive officer, Federal Land Bank and Federal Intermediate Credit Bank of Louisville, KY 149
  - Prepared statement 153
- Shaw, Howard L., president, Liberty Savings Bank, Mayfield, KY 90
  - Prepared statement 93
- Story, Steve, vice president, Liberty Savings Bank of Mayfield, KY 172
  - Prepared statement 173
- Todd, Tommy, State representative 20
- Turner, Richard, State representative 18
- Voorhees, Austin B., Hickman, KY 146
- Watson, Eva, Princeton, KY 70
  - Prepared statement 71
- Wilson, R.O., Jr., Grand Rivers, KY 163
  - Prepared statement 165
- Wilson, Thomas Larry, Arlington, KY 86

MATERIAL SUBMITTED FOR INCLUSION IN THE RECORD

Page
Burchard, Randall, Melber, KY, statement 193
Cook, Betty, farm wife, statement on the "Crisis in Agriculture" 192
"Farmers Need Some Answers in 1986," article from the Paducan Sun, December 19, 1985 194
Hornback, Dave, letter with attached added comments dated November 18, 1985 159
Hubbard, Chairman Carroll, opening statement 5
McAtee, Wayne, Cadiz, KY, letter dated December 20, 1985 193
McBride, L.M., letter to the chairman of the House Agriculture Committee, Hon. E (Kika) de la Garza, dated November 15, 1985, from the presidents of the American Bankers Association and the Independent Bankers Association of America 81
Miller, Gene Ray, letter with attached statement 129
Powell, Victor R., letter with attached notes dated December 20, 1985 116
Task Force on Farm Credit (1984-85), final report 21
Voorhees, Austin B., letter dated December 20, 1985 148

CURRENT ISSUES RELATIVE TO FARM CREDIT

FRIDAY, DECEMBER 20, 1985

House of Representatives,
Committee on Banking, Finance and Urban Affairs,
Subcommittee on General Oversight and Investigations,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:05 a.m., in council chambers, City Hall, Mayfield, KY, Hon. Carroll Hubbard presiding.

Present. Chairman Hubbard; Representative Parris.

Chairman **Hubbard**. The subcommittee hearing on General Oversight and Investigations of the U.S. House of Representatives Committee on Banking, Finance and Urban Affairs will now come to order.

Certainly I am very pleased to convene this hearing in my hometown of Mayfield, KY, to address current issues relative to farm credit. Indeed, farm credit is much in the news this week. In fact just yesterday headlines in our national press include "Congress Approves Farm Subsidy Bill, Clears Measure To Aid Credit System"; and another headline, "Bailout Bill Aids Troubled Farm Lenders by Cutting Interest Rates Paid on Funds." Both the House and the Senate have passed two measures this week. How timely our hearing is this morning, because President Reagan will consider this legislation over the weekend. We are not positive that he will sign the farm bill. We are positive, however, that he will sign the bill that we have passed on farm credit.

Congressman Stan Parris, my dear friend who is the ranking Republican member of the subcommittee I chair, is on his way. My wife Carol and Mary Martha Fortney, our staff director, left Washington last night about 9:30, and at that hour of the night with 30 minutes more for flights to leave National Airport before it closes outgoing flights, we flew to Atlanta. We then waited for a plane that was 2 hours late, and then we arrived at Nashville Airport this morning about 2 a.m. We are pleased to be here and to be on time to start our hearing. But Congressman Parris, understandably, wanted to wait until the last words were said in the House Chamber last night. His plane from Washington landed in Louisville. He is catching a private Kentucky flying service plane and is due to land at Mayfield Airport about 35 minutes from now.

I would like to introduce our Washington staff to you at this time. Mary Martha Fortney, formerly of the White House when Jimmy Carter was our President, and who has been with me for 5 years, is our staff director and a very talented young lady. She is a big plus for us in the Washington office. She knows this district like someone who has lived in this area. Having worked for me for 5 years, Mary Martha can probably give you the ZIP codes of every town in my district or knows many of the towns, whether it be Crutchfield or Tiline or Mayfield or Paducah.

Greg Carter is our counsel for our House Banking Subcommittee. Greg is a graduate, in fact was valedictorian, of the Carlisle County High School graduating class a few years ago. He is a native of Arlington in Carlisle County and graduated from the University of Louisville Law School, having attended and graduated from Murray State University. In fact Greg Carter and his wife Lisa, who is also on my staff in Washington, are both graduates of Murray State University and the University of Louisville School of Law.

Also, we have Harold Garrison on our subcommittee staff. He is going to meet Congressman Parris' plane when it lands in about 35 minutes. Harold Garrison was for 17 years the superintendent of schools in Fulton County, KY. He is a native of and longtime resident of Hickman, the county seat of Fulton County.

Let me also introduce Tony Kinne of our Paducah staff.

At this time, still knowing that Congressman Parris is probably over Beaver Dam or Central City about right now, I want to call on two men whom I like and admire. One is my mayor, and one is my county judge/executive. To welcome us, including those who are from out of town, to city hall, is the popular mayor of Mayfield, KY, Virgil Gilliam. Thank you, Virgil, for being here.

Mr. GILLIAM. Thank you, Congressman Hubbard, and may I say welcome home during this Christmas season.

Chairman HUBBARD. Thank you.

Mr. GILLIAM. We welcome you not only for the business that you are going to have today, but also for the Christmas season to be home with your friends and in your congressional district. To the visitors whom we have present, regardless of where you are from, I say welcome to the city of Mayfield today. We hope that your visit will be an enjoyable one. Make yourself at home here at city hall. Enjoy yourself. If we can be of any help to you, I will be in the mayor's office most of the day, and I will be happy to work with Congressman Hubbard and his staff to make your stay and your hearing today one about which you will be proud.

Again, welcome to the city of Mayfield. At this time, I will ask Graves County Judge/Executive Dick Castleman to extend a welcome to you on behalf of Graves County.

Chairman HUBBARD. Thank you, Mayor Gilliam. Certainly we are also very pleased to have here today our outstanding county judge/executive, who for 20 years has represented Graves County either as sheriff or county judge/executive. We appreciate the top ranking official of my home county being here this morning also, Judge Dick Castleman.

Mr. CASTLEMAN. Thank you, Chairman Hubbard. We are certainly glad to have you back home with us today. We would like to welcome everyone to Graves County. I would like to thank the subcommittee for being here in Graves County today to listen to our problems and discuss our situation with us.

Again, I want to thank you.

Chairman **Hubbard**. Thank you very much, County Judge/Executive Dick Castleman and Mayor Virgil Gilliam. We appreciate you of the news media who are here today from Paducah, from Mayfield, and from other parts of western Kentucky.

In looking over yesterday's newspapers as to what the House and Senate did on Wednesday, December 18, regarding the farm bill and the farm credit legislation, I really believe that the Wall Street Journal had the best articles. Let me read a portion of two pertinent articles about farm legislation. The first is datelined Washington, written by Albert Carr from the Wall Street Journal, dated Thursday, December 19, 1985:

> Congress completed and sent to President Reagan its double-barreled effort to aid agriculture, approving a major farm subsidy bill and a measure to bail out the Farm Credit System.
>
> The House voted 325 to 96 for the comprehensive, 5-year farm bill, which was completed by a House-Senate conference over the weekend. The Senate approved it 55 to 38.
>
> After approving the farm bill, the House decided to accept the new farm-credit bailout measure approved by the Senate Tuesday night. President Reagan has said he will sign that bill.
>
> Representative Edward Madigan (R., IL.) ranking minority member on the House Agriculture Committee, said he understood Agriculture Secretary John Block is recommending that the President sign the farm-subsidy bill. He added, It would be a political disaster for the Republican Party in the Farm Belt if the President vetoes this bill.
>
> Many lawmakers described the farm-subsidy bill as far from perfect but the best Congress could come up with considering budget constraints and other pressures. They said it provides a safety net for farmers until better times arrive. Senator John Melcher (D. MT), said bill is only a framework for the rescue of the remaining agriculture industry but that more needs to be done.
>
> The bill seeks to make farmers more competitive in world markets by reducing crop loans that growers receive at harvest time, thereby pushing down prices. It also tries to protect farm income by freezing income-support payments for 2 years and then modestly lowering them through 1990. Congress also tried, with limited success, to keep farm spending in check; the cost of the bill, estimated at $52 billion over 3 years, compares with a $60 billion total for the 4 years of the previous bill.
>
> The bailout measure differs from an earlier bill for the big farm-lending network that has been passed by both the House and the Senate. The new measure would give both wealthy and financially shaky districts within the Farm Credit System a specific say in selecting the board of a new capital corporation for the System.
>
> The corporation will manage the transfer of funds from well heeled System banks to the ones in greatest trouble, and will serve as a warehouse for nonperforming loans and the assets of farm borrowers who have received those loans from System lenders.
>
> The bill would create a line of Treasury credit for the System, without setting a figure; force better asset pooling within the network to help its ailing units; and toughen Federal regulation of the System.
>
> Lawmakers worked quickly on the legislation after officials of the Farm Credit System, which holds one-third of the Nation's $210 billion farm debt, called for Federal financing to stem loan losses. "This fix had to be done now—it had to be done in haste," said Representative Arlan Stangeland (R. MN).

The second article to which I am referring is also from the December 19, 1986, Wall Street Journal and is headlined "Bailout Bill Aids Troubled Farm Lender by Cutting Interest Rates Paid on Funds." I trust you realize this should be significant to our hearing because this appeared only yesterday in the news about what the Congress has done this week.

Let me read a part of this article:

> Legislation to bailout the ailing Farm Credit System is already improving the big lender's funding strength, but the measure will not halt the System's huge losses.

The legislation, now passed by the Senate and the House and expected to be signed soon by President Reagan, creates the first major warehouse to hold bad debt since the Great Depression and appears to expose the government to large, continuing expenses.

System officials and Wall Street money managers said the farmer-owned System's bonds and notes have traded more favorably in recent weeks, since the bailout's passage has been anticipated. A $1.15 billion issue of 6-month bonds was prepared to be offered today, priced at par to yield 8 percent or just 53 basis points above similar Treasury obligations. A basis point is one-hundredth of a percentage point.

The bill aims to help sustain the Nation's biggest farm lender, which holds about one-third of the total $210 billion in farm debt. The System is vital to U.S. agriculture, operating through Farm Credit Banks in 12 locations and a central bank for cooperatives. As reported, its management and accounting systems have been lax, with some of the banks continuing to record interest—and thus profits—on loans delinquent for 2 and 3 years. However, the System is now undergoing its first outside audit and expects to issue financial statements for 1985 in accordance with generally accepted accounting principles.

While the Federal backing is buoying Farm Credit bonds, it won't ease the System's burden of farm loan losses. The system expects to report a loss of about $2.5 billion for the fourth quarter, reflecting loan chargeoffs and an increased reserve for future losses.

Let me advise the people who are here that the testimony of today's hearing—which comes just 2 days after the House and Senate have passed the farm credit legislation—will be shortly presented to President Reagan. Certainly President Reagan will know about this hearing today in Mayfield, KY and also each member of the House Banking Committee and House Agriculture Committee will be afforded a copy of this record for their consideration.

[The opening statement of Chairman Hubbard follows:]

REMARKS OF U.S. REP. CARROLL HUBBARD, CHAIRMAN
SUBCOMMITTEE ON GENERAL OVERSIGHT AND INVESTIGATIONS
OF THE HOUSE BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE
FRIDAY, DECEMBER 20, 1985 MAYFIELD, KENTUCKY FARM CREDIT HEARING

The Subcommittee on General Oversight and Investigations of the House Committee on Banking, Finance and Urban Affairs will now come to order, as I am very pleased to convene here today in my hometown of Mayfield, KY., to address current issues relative to farm credit.

Throughout this entire year in Washington, farming and farm credit issues have been at the forefront in the legislative agendas of both the House and Senate. From the 1985 farm bill to the Farm Credit System's request for federal government assistance, we continue to be deeply immersed in the problems surrounding farming and ag-lending.

I am very familiar with the difficulties facing farmers and bankers in western Kentucky. In my duties as U.S. Rep. for the First Congressional District of Ky., an area comprised of 24 counties, I have had thousands of contacts - - letters, phone calls, and personal visits - - from local farmers, bankers and concerned citizens expressing their interests and concerns about what the future may bring in terms of Congressional action.

Because I am aware of the magnitude of the problems in western Kentucky, I felt it extremely important to conduct this hearing in Mayfield to provide our witnesses a convenient and important opportunity to share their insights with our subcommittee. Undoubtedly, our discussions here today will be valuable and

HELPFUL TO OUR SUBCOMMITTEE AND TO THE FULL BANKING COMMITTEE IN ITS DELIBERATIONS ON RELEVANT FARM CREDIT LEGISLATION IN THE NEAR FUTURE.

ON A NATIONAL SCALE, TOTAL FARM DEBT NOW EXCEEDS $210 BILLION. OF THAT AMOUNT, THE FARM CREDIT SYSTEM HOLDS $74 BILLION. $18.7 BILLION OF ITS LOANS ARE TO FARMERS WITH ABOVE A 40% DEBT TO ASSET RATIO, $8.6 BILLION IS OWED BY FARMERS WITH DEBT TO ASSET RATIOS ABOVE 70%, AND AN ESTIMATED $3.5 BILLION IS OWED BY FARMERS WHO ARE INSOLVENT.

THE FARM CREDIT SYSTEM, BECAUSE OF FALLING COLLATERAL VALUES, INCREASING COSTS OF BORROWED FUNDS, AND GREATLY INCREASING LEVELS OF NON-ACCRUAL LOANS, FOUND IT NECESSARY THIS FALL TO REQUEST FEDERAL ASSISTANCE. THE FINANCIAL ASSISTANCE PACKAGE WHICH CONGRESS HAS PASSED THIS WEEK AND WHICH THE PRESIDENT IS EXPECTED TO APPROVE WILL ~~[illegible]~~ Hopefully PROVIDE A FIRM STEP TOWARD SHORING UP THE TROUBLED LENDING ENTITY, THUS HELPING TO ENSURE THAT IT WILL CONTINUE TO BE A VITAL SOURCE OF CREDIT TO FARMERS NATIONWIDE.

COMMERCIAL BANKING INTERESTS, WHICH HAVE A HUGE STAKE IN THE FARM CREDIT CRISIS, HAVE ALSO BEEN ACTIVE IN WASHINGTON RELATIVE TO FEDERAL ASSISTANCE FOR AGRICULTURAL LENDERS. COMMERCIAL BANKS HOLD NEARLY 20 PERCENT OF NON-REAL ESTATE LOANS AND 5 PERCENT OF REAL ESTATE DEBT, AND HAVE EXPERIENCED SHARP INCREASES IN DELINQUENCIES AND LOAN LOSSES IN THE PAST FEW YEARS.

DELINQUENT LOANS ARE UP 20 PERCENT AT AGRICULTURAL BANKS. AS DEFINED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC), THERE ARE NOW AT LEAST 410 PROBLEM FARM BANKS (BANKS AT WHICH DELINQUENT loans exceed total capital). Farm loan charge-offs in 1985 are running at two times the pace of 1984, when commercial lenders wrote off $900 million in farm debt. Agricultural bank failures increased from 6 in 1983 to 33 in just the first half of 1985. Hence, the problems facing commercial banks cannot be overlooked as Congress considers the need for assistance among the farm lending industry.

Of course, any congressional action to provide assistance to farm lenders is done with the intent of providing longterm benefits to the farmers-borrowers. Without question, the main thrust of our efforts is to help maintain the availability of reasonable farm credit.

The problems of farm lenders are necessarily intertwined with the difficulties being experienced with the financial situations of their borrowers.

The problems facing farmers today undoubtedly have been years in the making. During the 1970's, U.S. farmers were encouraged to maximize production to meet what then seemed like a never-ending demand from overseas. Tens of thousands of farmers greatly expanded their operations, acquiring expensive land and mortgages. As farmland and commodity prices skyrocketed, they stimulated extraordinary agricultural growth.

Only a few years ago, the price of soybeans reached nearly $12 per bushel, and the value of land reached heights never before attained. However, things have changed since the late 1970's. Now, soybeans sell for barely $5 per bushel, with no meaningful

INCREASE VISIBLE ON THE HORIZON. LIKEWISE, AVERAGE FARMLAND VALUES NATIONWIDE HAVE FALLEN BY ONE-THIRD FROM $822 PER ACRE IN 1981 TO $682 EARLY THIS YEAR. MANY ECONOMISTS PROJECT ADDITIONAL EROSION OF 20 PERCENT IN LAND VALUES BY 1987. THE LIKELIHOOD OF FORECLOSURES PUSHING MORE FARMLAND INTO THE MARKET DOES NOTHING TO MAKE THE IMMEDIATE FUTURE LOOK ANY LESS TROUBLING.

OUR GENERAL OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE IS RESPONSIBLE FOR APPRAISING THE ADMINISTRATION OF THE LAWS UNDER THE JURISDICTION OF THE FULL BANKING COMMITTEE. WE CERTAINLY CONSIDER THE ISSUES OF FARM CREDIT TO BE OF PARAMOUNT IMPORTANCE IN THIS TROUBLED TIME, FROM THE STANDPOINTS OF BOTH BORROWING AND LENDING.

WE LOOK FORWARD TO HEARING FROM OUR WITNESSES TODAY -- FARMERS, BANKERS, KENTUCKY AND FEDERAL GOVERNMENT OFFICIALS, AND FARM CREDIT SYSTEM REPRESENTATIVES -- TO DISCUSS THESE ISSUES FROM A NATIONWIDE TO A GRASSROOTS BASIS. I KNOW THAT FARM CREDIT PROBLEMS EXIST IN WESTERN KENTUCKY, AND I BELIEVE OUR PROBLEMS ARE JUST AS SEVERE AND ARE FAIRLY REPRESENTATIVE OF THE PROBLEMS WHICH ARE PREVALENT NATIONWIDE.

OUR WITNESSES ARE ENCOURAGED TO DISCUSS THESE PROBLEMS AS WELL AS ALTERNATIVES WHICH COULD HELP TO SOLVE THE MANY DIFFICULTIES CONFRONTING AGRICULTURAL BORROWERS AND LENDERS. I SUGGEST TO OUR WITNESSES TODAY THAT YOUR VIEWS, FROM A PERSONAL STANDPOINT OR ON A WIDER PERSPECTIVE, ARE VERY IMPORTANT TO US IN OUR EFFORTS TO TAKE POSITIVE AND CONSTRUCTIVE ACTION.

FORTUNATELY, KENTUCKY FARMERS AND BANKS ARE CERTAINLY IN BETTER

OVERALL SHAPE THAN SAY IN SOME MIDWESTERN STATES. HOWEVER, THE PROBLEMS BEING EXPERIENCED ARE REAL AND TROUBLING TO THOSE WHO HAVE CONTACTED ME.

I WELCOME THIS OPPORTUNITY TO HOLD THIS HEARING TODAY, AND WANT TO ADVISE YOU THAT OUR SUBCOMMITTEE ON GENERAL OVERSIGHT AND INVESTIGATIONS, THE HOUSE BANKING COMMITTEE AND MY COLLEAGUES IN THE 99TH CONGRESS WILL CONTINUE TO SEARCH FOR THE SOLUTIONS TO THE PROBLEMS FACING YOU AND SO MANY OTHERS IN THE AGRICULTURAL AND BANKING INDUSTRIES.

WE ARE GLAD TO HAVE SO MANY EXCELLENT WITNESSES HERE BEFORE US TODAY.

Chairman **HUBBARD**. At this point let me ask to come to the witness table, two gentlemen with whom I have had the privilege of serving in the State legislature, State Representatives Jim Bruce of Christian County and State Representative Ward "Butch" Burnette of Fulton County. Jim Bruce and his wife Jennie are both here. They own a big farm, and have a beautiful home south of Hopkinsville between Hopkinsville and Fort Campbell. Jim Bruce is the dean of the house of representatives in Frankfort. Ward "Butch" Burnette lives in Fulton County, represents Carlisle, Hickman, Ballard, and Fulton Counties and is on the State house of representatives agriculture committee. He could well be our next Kentucky commissioner of agriculture. We would like to invite State Representatives Jim Bruce and Ward "Butch" Burnette to be our first witnesses.

Mr. **BURNETTE**. Congressman, we also have two other members of the farm credit task force in the general assembly with us. Representative Richard A. Turner and Representative Tommy Todd. Could we bring them up here?

Chairman **HUBBARD**. Absolutely. Representative Richard A. Turner and Representative Tommy Todd, we are very pleased that you are here this morning. Representative Richard A. Turner, if I am correct, is from Metcalfe?

Mr. **TURNER**. No, sir, from Tompkinsville, KY, which is Monroe County. I also represent Simpson and Allen Counties.

Chairman **HUBBARD**. Thank you. Representative Turner represents Simpson, Allen, and Monroe Counties. Representative Tommy Todd is from Madison County?

Mr. **TODD**. No, sir, Pulaski County.

Chairman **HUBBARD**. Pulaski County. I certainly should know that one. That is my wife's home county. Pulaski County. You live out in the county if I remember right.

Mr. **TODD**. Yes, sir.

Chairman **HUBBARD**. The Nancy community?

Mr. **TODD**. Nancy.

Chairman **Hubbard**. We are honored that you four State representatives are here in Mayfield this morning. All four gentlemen are well known in Kentucky.

We would ask State Representative Jim Bruce to be our first witness. How many years have you served in the State legislature?

Mr. **Bruce**. Well, it will be 23 years just as soon as I finish this term.

Chairman **Hubbard**. Twenty-three years—that is a long time.

Mr. **Bruce**. Congressman, there is one man who is more popular in my county than I. As long as people keep you a Congressman, I will probably continue to serve. I want to tell this in your hometown because I do think sometimes people in your home county do not appreciate you as much as other people in your district do. You are the most popular man in my county, and since I have been representative, I do not know of any other politician who is as popular in the Christian County area, including probably the Governor, as Carroll Hubbard is today. I want you all to know that here, because I think sometimes we tend to overlook in your home county how popular you are and how much good you do us from other counties. And you did not prompt me to say that either.

Chairman **Hubbard**. No, I didn't prompt you.

Mr. **Bruce**. Congressman, I mean every word of it. I tell a lot of people, Carroll Hubbard is so popular in Christian County that I would hate to run against him. So I really mean it, Congressman.

Chairman **Hubbard**. You are very kind, Jim.

Mr. **Bruce**. I mean I would hate for him to run against me in Christian County.

Chairman **Hubbard**. Mrs. Janie Bruce, would you stand and let all of us know who you are. We appreciate your being here. She is the very helpful wife beside the scene, not behind the scene. Jim Bruce, would you be first? Which committees are you on in the Kentucky House of Representatives?

Mr. **Bruce**. I am cochairman of the bank and insurance committee, a member of the veterans' affairs and State government committee and the administrative regulation review subcommittee.

Chairman **Hubbard**. Are you a farmer?

Mr. **Bruce**. Yes, I am a farmer. I have been a farmer all my life. I graduated from college in agriculture and enjoy farming. I think this is probably the worst time in farming since I have been in farming for 30 years. I think this probably is the most depressing period that I have seen in farming. All of the farm community is very depressed in their attitude toward farming. As I said the other day, I think that the people in the towns and cities of this country do not realize the condition of the farms and the attitude of the farm people in this country.

We, in this committee, in traveling across the State, have sent our resolutions to you and to Congress to try to express—that is the best thing that we can do—our feelings and what we hear from the people across the State and in trying to help the farmer in this situation as it is today.

That is just a short statement. I will be glad to elaborate further. But I feel that Butch Burnette is chairman of this committee—has done an excellent job.

Chairman **Hubbard**. Thank you.

We next call on State Representative Ward "Butch" Burnette of Fulton County, an adjacent county to Graves County. Ward "Butch" Burnette, how long have you been in the State legislature?

Mr. **Burnette**. Ten years.

Chairman **Hubbard**. We have said earlier which counties you represent.

Mr. **Burnette**. Fulton, Hickman, Carlisle, Ballard, and five precincts in McCracken County.

Chairman **Hubbard**. I did not mention that.

Mr. **Burnette**. Yes. I just added it.

Chairman **Hubbard**. What is this task force of which you are chairman?

STATEMENT OF WARD "BUTCH" BURNETTE, STATE REPRESENTATIVE, FULTON, KY

Mr. **Burnette**. Let me say, Congressman, we appreciate the opportunity to be here with you today and really, Carroll, we appreciate it so much. I know you are busy and you are concerned by coming down to listen to the problems that exist in Kentucky, including western Kentucky. Let me say this, one thing I have found out in chairing the tobacco committee, being vice chairman of the agriculture committee and as chairman of this committee, you have always had an open ear and always worked really well with us. We appreciate it, and your concern for agriculture is well known.

This committee was formed back in May as a result of a lot of concern by the leadership in the State legislature over the problems of agriculture. In the past as Jim and you know, probably we have never seen this many problems in agriculture. The problems are real. They do exist. The members of the general assembly felt like they needed to have hearings to take testimony and do everything that they could to help alleviate some of the farm problems.

One of the major problems has been farm credit. And a one of our concerns has been the lack of some farmers being able to get credit. Another of our concerns has been the number of foreclosures, especially in western Kentucky in your district.

We have held several hearings, and we have found through these hearings throughout the State that in the First Congressional District, and probably in the Second Congressional District, most of these problems exist. In other parts of the State, we do not have as many foreclosures or bankruptcies due to the fact that most farmers there raise tobacco. Tobacco is the backbone of the economy of Kentucky, and in central Kentucky it really makes a difference. We have also found that grain farmers are the ones probably that are hurting the most.

Back in the 1970's the leadership in Washington and all of our leaders encouraged farmers to grow more grain, to plow down or push down their fence rows. These farmers did that, and they extended their debt. Even our Secretary of Agriculture at one time said that farmers should extend their debt, borrow more money, buy more land, and be more productive because we were going to feed the world. And, you know, when your leaders tell you something, you want to believe them. Farm people are proud people, we are real proud. I am a farmer myself, and I know I am very proud of this country and want to do everything I can to grow with this country. One of the problems that exists today is the fact that farmers did do that and then very shortly, starting in the late 1970's, there were 14 embargoes placed on our American farmers. The embargoes broke the back of our American farmers. And as a result, interest rates did too. Another thing that we want to point out is that the farm debt more than doubled in just 8 years. What happened was the interest rates, due to Government borrowing—or deficit spending—went to 18 percent interest, which practically broke the backs of many farmers, especially those in western Kentucky.

I am going to take a few minutes now, because we have worked for 7 months on this study, and we want this information sent to Washington.

Let me continue and discuss some of the things that we have studied. As I have said earlier we have held hearings. Most of our hearings have been in western Kentucky because of its problem. One of the things that we have found by taking a look at farm lenders is that the Farm Credit System has had most, I think around 35 percent, of the farm debt in the State. It is the largest lender to farmers. Due to problems with the Farm Credit System, farmers have been trying to leave the Farm Credit System, because of high interest rates, foreclosure problems, and because of a lot of pressure that has been placed on farmers. We had a hearing in Christian County and we had things told to us that really alarmed our committee. As Representative Jim Bruce will tell you, people felt like they were being treated very unfairly by the Farm Credit System and were very concerned.

We had Raymond Schlader, president of the Farm Credit System in Louisville, before our committee. Representative Bruce and the others shot questions at him. He told us at this time that the Farm Credit System was not in any trouble, that everything was all right. We explained to him what was happening in western Kentucky—the foreclosure problems and the 13-percent interest. Farmers cannot afford to pay 13-percent interest on today's farm market prices. There is no way, and, you know, when you talk about bailing out the Farm Credit System, one of the things that needs to be pointed out and that we told Raymond Schlader, we thought ought to be done, after he finally did admit that the Farm Credit System was in trouble. He would not admit that to us. But on Monday morning, after our meeting on Thursday, he went to Washington and admitted it along with Mr. Don Wilkinson who is president of the Farm Credit System across the Nation.

So one of the things that we pointed out to him was that if you are going to bail out the Farm Credit System, and help our farmers, you cannot do it without credit. Farmers must have credit. We must have a Farm Credit System because the banks cannot take the load. One of the things that the committee found is that the banks have done a fantastic job in trying to help this situation. In western Kentucky we did not have over one or two people who criticized actions of the banks. They had tried to help farmers who had been loaned money and bail them out. In other words, banks wanted to loan them money, in order to pay off their Farm Credit System debts. One of the things that we pointed out to Raymond Schlader was that if you do get bailed out by Congress, we want part of the legislation to be written so farm interest rates will come down below 10 percent. Now, Congressman, you can loan farmers all the money you want, but if you loan farmers money at 13 percent and you bail out the Farm Credit System, in 5 years they are going to be broke again. Because the reason they are going broke is the farmers are going broke. Farmers are not making any money, and under today's depressed prices, there is no way farmers can pay for their loans. This is not part of the committee report, but I would like to add in this bill that Congress has just passed, you are going to have a whole lot more problems. Because this bill is not one that will solve your grain farmers' problems. You are going to see more farm foreclosures than you ever have before.

We advised Raymond Schlader that if they would get the interest rates down below 10 percent, then we probably could keep some farmers in business.

I do not want to harp on the Farm Credit System, Congressman, but I am very concerned about actions that have been taken. Our committee is also concerned, and we think it ought to be straightened out. We also think that foreclosure problems are something that we need to consider. Our staff ran a study about what happens when you foreclose on farmers who are not making any money, and you tell them if they cannot pay their interest, they cannot pay their debts, and we have to foreclose on them. Every time you foreclose on a farmer and go out and sell his farm, you lower the price of land. There is some land that has been sold in Christian County, in Purchase area, and in other parts of the State for 30 cents on the dollar. Thirty cents on the dollar. That is a correct figure. We have case after case history of those and we could give those to you also. We will with this testimony, and what that has done is it has lowered the price of land.

Now, that farmer, thought he had made money on his crop. But, if he would go in and refigure his loan, he actually lost money, because if you lower land prices $200 or $300 an acre—and he is farming 500 acres—look at what it really cost him. Land prices have come down almost 50 percent in the last 5 years. And that is quite a bit of drop, and what you are doing is this—you are taking away the borrowing power from that farmer. The foreclosure problem has to be addressed. If it is not addressed, you are going to see land prices come down even lower, and you are going to see those good farmers—and we are talking about farmers now who are real good productive farmers—you are going to see them forced out of business because of the land prices.

Chairman HUBBARD. What are you suggesting as to the foreclosure problem?

Mr. BURNETTE. It is my opinion that we ought to try to halt foreclosure problems. We are addressing this problem in the Kentucky General Assembly by saying that as long as the farmer paid his interest, then maybe he should not be foreclosed on. There are some people who are foreclosing on farmers even when they pay their interest. Right, Representative Bruce? Have you got anything you want to say on that?

Mr. BRUCE. Well, there are three things that the task force recommended.

Mr. BURNETTE. Go ahead.

Mr. BRUCE. One of them was out of the farm credit——

Chairman HUBBARD. This is the task force recommendation?

Mr. BRUCE. Yes, this is the task force recommendation.

Chairman HUBBARD. How many members are on your task force?

Mr. BURNETTE. There are 10 members.

Mr. BRUCE. There are three things we recommended if the Federal Government would put money into the Farm Credit System. Our thoughts were that the money should go more to the benefit of the farmer, than for Federal land banks and PCA, to keep their bonds selling good. First, we felt that maybe they should reduce interest rates, as Representative Burnette said. Second, and I believe you will agree, is to make sure that they had enough money in supply, part of that money went to supply farmers to put out the crops next year. And then of course the moratorium on foreclosures was the last of the three recommendations.

If you are going to put $6 billion or whatever into the Farm Credit System—and I think the farmers need it more—then the Farm Credit System should be willing to make concessions to the farmer.

Mr. BURNETTE. In other words, we think the interest rates ought to be lowered quite a bit for farmers. I believe the Farm Credit System could pay Congress back just like Chrysler could. Chrysler came back and paid Congress back quickly. But they are not going to be able to, Congressman, at a 13-percent interest rate on today's market, on today's prices. There is no way. If you do not get interest rates down, you are going to see in 5 years that the Farm Credit System is going to owe you more and more money and it will be broke again. Because the System only makes money when farmers make money. Just like everybody else in western Kentucky. When the farmer makes money, your small business people make money. It is a problem. The Farm Credit System is not going to exist unless the farmer is making a profit.

Anything else, Jim?

Mr. BRUCE. Congressman, the present system isn't working. The good customers are going somewhere else, from insurance, the banks, or any other good place, and get their money for about 10 or 11 percent and pay off the Federal land bank. And all they are going to have, if they keep it up that way, are the bad loans, and that only creates more and more.

It is just a vicious circle. So if they lower it and keep those good loans in there that are real—willing to pay; I know several farmers that did not owe a whole lot and they were afraid they were going to lose their stock, which they had a big loan up here and then they paid it down and were going to lose several thousand dollars stock, they immediately went to the bank, borrowed the money at about 3 points less, paid off the Federal land bank and there was a good loan that would have been real good and real secure.

But those that cannot go and those that are in trouble, well, the only thing that is going to be left, at 13 and 14 percent, they are going to still get in more trouble. And those foreclosures are going to force your land down. And even a farmer that has 500, in my county if it goes to 3 or 4, then the Federal land bank is going to say, well, look you owe more money than that land is worth so we are going to foreclose, even though you are paying your interest. And so it is a vicious circle, and we would hope that when you put this—well, I guess it has already gone in, but at least they would, the Farm Credit System, would look to help the farmer and not just keep their bonds and survive themselves. Because, as Representative Burnette said, I feel like they are going to get in more trouble if they do not work with the farmer more.

Chairman HUBBARD. We will shortly call on Representatives Richard Turner and Tommy Todd.

Mr. BURNETTE. OK. Another thing, Congressman, that we feel should be done—and I know I have talked to you about this and you have supported us and so have our Senators—is the Kentucky Finance Corp., through which we use revenue bonding or agri-bonds. In other words, we were trying to loan money to farmers at much lower interest rates than they could borrow money from their local banks. The bill was a real good bill, but Congress—at the President's urging—changed the law in 1984 and took agriculture out of revenue bonding. As a result, only a first-time farmer can finance now, and there are not many people who want to get into farming these days. Farmers can also buy used equipment through agri-bonds. But they cannot buy farmland, and they cannot refinance their loans. We would like to change this law, and I have talked to the chairman of the House Ways and Means Committee, I have written him on several different occasions, urging that we put agriculture back into revenue bonding. We can loan farmers money through revenue bonding for around 8½ to 9 percent. We have made two loans in Union County just last month, but they were first-time farmers. And if Congress would put agriculture back into bonding, we, in the States, could help alleviate a lot of our credit problems. As a matter of fact, we could go through not only the banks but also through the Production Credit Association and the Farm Credit System by doing this. We could even lower interest rates. We do not presently but we could add that to the legislation. Farmers could get cheaper money through our bonding and that would give Kentucky's farmers much cheaper interest rates.

That is one law that I think needs to be changed in Washington. If it was, it would really assist us. We are introducing a bill this time to take State surplus funds, Congressman, and loan them to farmers for production costs. We have introduced that, pre-filed it, and it will be introduced this session. We will be able to loan money through banks and through PCA's or through the Federal land bank. Farmers' operating capital is from their PCA, though, it would be loaned through PCA's and banks to farmers for around 6 percent interest. We met with the head of the Kentucky Bankers Association the other day, the head of the PCA. They were really excited about our idea and they encouraged us to do it. They said we could get cheaper interest rates. So we are planning on passing a bill that will get 6 percent interest through what we call link deposits. Our plan is to take State surplus funds, let the banks have them at a much cheaper interest rate, and, as a result, farmers will get a lot of benefits from it.

I know we do not want to take too much time, but I do want to conclude by saying, and these gentlemen may want to add a few things, that the problem of farm credit is severe in Kentucky. Agriculture is your No. 1 industry by far in Kentucky, and in the First Congressional District it is by far the No. 1 industry, as you know. It is on its knees, it is in bad shape. Implement dealers are going out of business right and left. Small towns in my district are really hurting because the farm economy is suffering. We have got to address these problems.

Chairman **Hubbard**. I might add at this point that Representative Butch Burnette represents two counties, the only two counties in the First Congressional District which lost population during the years 1970 through 1980, and those are Fulton County, his home county, and Hickman County, KY. Those two counties unfortunately lost population during that decade and hopefully that can be reversed. But farming is the key to it.

Mr. **Burnette**. It has been reversed in the last couple of years, but it has been a problem, that is right. In concluding let me say that something has to be done. As we pointed out, interest rates must come down from the Farm Credit System. We wanted to make sure that you understood that. We want to make sure that you understood that the banking system in Kentucky—and bankers are doing a very good job—but it is impossible for them to carry the whole farm load. We need help from the Farm Credit System—we cannot exist without it. So we have got to do something to help the Farm Credit System. The only way we are going to help the System is by lowering interest rates to the farmer.

We have other things that we can recommend, but Jim and some of the others may want to say something. The farm problem is a problem and I know you know it. It is not going to get any better. In my opinion it will not get any better with the present farm legislation and it is going to get worse. Something has to be done to make changes. We encourage you to keep through this Farm Credit System and also through this revenue bonding, through maybe some type of situation where the farmers will not be foreclosed on. If we continue to see farmers foreclosed on, Congressman, those farmers who have collateral are going to lose it. They are going to lose it because their land prices are going to come down. Those are the three issues that we wanted to point out. Thank you so much for giving me the opportunity and let the others, if they have a few things they would like to say.

Chairman **Hubbard**. Thank you very much, Butch Burnette. Keep in mind that the Congress just this week passed the farm bill. Did we cut spending in our efforts to reduce the deficit and bring down the Federal debt now which is $2.1 trillion? We passed a bill that will give the agriculture in America $52 billion over the next 3 years. That compares with the previous legislation of $60 billion for a total of 4 years. So we have increased spending again, but this time trying to help agriculture.

Mr. **Burnette**. Let me remind you that a lot of times you can increase spending, but it does not help. Congress is still not addressing the problem. The problem is that we have a surplus amount of grain, and until you address the surplus problem and get the farmers' prices up, like the Harkin bill in the Senate, you won't save much. If you take a look at the Harkin bill, it would have saved you billions of dollars in revenue. It would have raised the farmers' prices, cut production, and conserved land also. I think this is my opinion, not the committee's. We disagree sometimes on these things, don't we, Jim?

Mr. BRUCE. Yes, we do.

Mr. BURNETTE. I do not want you to think the preceding are the committee's views.

Chairman HUBBARD. Yesterday's USA Today, capsules four main provisions of the farm bill: it initially freezes income subsidy programs before allowing slight declines; provides trade programs to boost exports; ties farm benefits, for the first time, to good soil conservation practices; and allows farmers to repay less than they borrow in price support loans at harvest. It is not known for sure that President Reagan will sign this bill.

Mr. BURNETTE. You have got some good things in the bill. There are a lot of parts in the bill that are good. But what I am saying is that the legislation will not address the problem down the line.

Chairman HUBBARD. When we get into how we can lower interest rates that has been the main concern of the House Banking Committee.

Mr. BURNETTE. Yes, sir.

Chairman HUBBARD. And that is a major problem—how we do lower these interest rates.

Mr. BURNETTE. Yes, let Representative Jim Bruce address that.

Mr. BRUCE. I will address that when you get through.

Chairman HUBBARD. Paul Volcker, Chairman of the Federal Reserve Board, who visited Mayfield, KY, 3 years ago, would tell us that the best way to lower interest rates is for the Congress to attack—successfully and quickly—the growing Federal deficit problem. He said that would encourage Wall Street and the New York banks more quickly than anything else.

Before we hear from Richard Turner and Tommy Todd, let me ask you friends in the back of the room, would you mind to come up to the front and in fact take some of these seats that are empty. We would appreciate it if you would do us that favor, because as others continue to come in, they are having to stand in the back of the door. We would appreciate it if you would come on up.

Let me introduce Anita Prince Folsom, who is a native of Mayfield, KY, and now lives in Murray, KY, and the western Kentucky field representative for Senator Mitch McConnell. Anita Prince Folsom graduated from Mayfield High School and Murray State University. Senator McConnell, as we know, is a member of the Senate Agriculture Committee, for which we are glad. We are so happy you are here.

Fred Nesler is also here. For several years, Fred was my field representative in western Kentucky and during that time, I might add, he, too, married a Pulaski County native, Joan Hackard of Somerset, and they now live here in Mayfield.

Now we will hear from State Representative Richard Turner. Tell us a little bit about the counties you represent and your position in the State legislature.

STATEMENT OF RICHARD TURNER, STATE REPRESENTATIVE

Mr. TURNER. First of all, Congressman, I am delighted to be here. I represent one county in the fifth district and two counties in the second district. Monroe County is essentially a dairy, tobacco, small crop, and a rather diversified county. As far as farming is concerned, we have beef cattle and so on. Allen County has a similar type of production, but in Simpson County, a lot like you have it here—flat country—grain, soybeans, and hogs are essentially what we produce there.

I am a Republican, and minority floor leader in the house of representatives in the State of Kentucky. I operate a 500-acre dairy and tobacco farm. I also farm some grain and corn, but the corn is basically used for silage. I am a big user of grain, which I purchase hopefully from out of this area of western Kentucky.

Chairman HUBBARD. Some grain farmer Congressmen voted "No" on this farm bill. Representative Glenn English, of Oklahoma, said that although he represents a lot of grain farmers, this bill is not what he wanted. He is also a Member of the House Agriculture Committee.

Mr. TURNER. But there are two or three things that I would like to say. I think the thing that is beginning to demoralize a lot of us is that, No. 1, most of us farmers already consider ourselves defeated. We have been psychologically whipped. We have run our heads against the wall trying to survive with production; trying to survive with efficiency; and all we are accomplishing is that we are ending up not moving what we are selling. I think the root of the whole problem is selling. The beginning of it was the grain embargoes that we got thrown on us. I think that was the root of our problems. Being a dairy farmer and formerly a general manager of a $48 million dairy operation, I think what got us into trouble with dairying is that we allowed the Government to purchase and we gave the sales people an easy way out, a copout. They could sell it all to the Government at a price, so that is exactly what they did. I think the co-ops are as guilty as anyone that I know of and I am a member of Dairyman, Inc. They took an easy way out. In other words, they did not sell anything. I am formerly a national sales manager of my company also, plus a division manager. And I have also been a member of the Wisconsin Dairy Exchange, that set the market for dairy products in the country.

I think psychologically we feel we are beat. Government programs, rather than giving help to the people who have ability to produce, are so conditional that they end up subsidizing people who do not even have the ability to be in farming to begin with. I have seen this over and over in my area. If you want to get a loan, be inefficient and you can get it. The people who are producing and have traditionally been able to produce are not getting anything. We cannot get money cheap. I am still paying 13½ percent to the Federal land bank. And I am repaying my loans, I have always repaid my loans. But the people who can get easy money from Farmers Home Administration, and so on, are the people who have never really succeeded in farming. They just had a dream, and they have never succeeded because they do not have a history. Farming is a hard business and it is tough.

You know, I think that there has to be some way in American business that if business succeeds, it succeeded because you are a good manager. If you succeed in politics, it is because you are a good manager. You do something for your constituents. Yet it seems that most of our Government programs have tried to compliment and encourage people who have not really succeeded in the profession of farming.

I would like to see some method where we, at least, the farmer out here who shows he has some ability, can get a loan, at least competitively.

I would also like to say that there are loans out there at a price. But most of us do not feel that we should subsidize others, and that is what some of the farmers who are still in business are doing—we are subsidizing a sales pitch that PCA, Farmers Home Administration, and other people have gone out and sold. We are having to pay for their mistakes. They have done a sales job on us—they sold money; it did not work out; and now we are paying for it, and a lot of us are becoming very demoralized as a result of it.

I think our chairman has essentially covered the technical points. I do not think that we have much disagreement on what we need to do. We need, first of all, to have some competitive interest rates. We need to quit penalizing the productive sector in this country. We need very badly to sell something. We need a national program to sell something. We need to quit importing dairy products from countries that will not allow our ships to dock in their ports, like New Zealand and Australia. We need to do the same thing with the Common Market. And I do not feel that we have really been as tough in some of these areas as we need to be.

I appreciate this opportunity. And, again, most of my remarks are off the cuff because I did not intend to say anything this morning. But I do basically support the position of our two chairmen of the other two committees. Thank you very much, sir.

Chairman **Hubbard**. Thank you very much. I now want to call on State Representative Tommy Todd, and while I am asking him to speak, I wish that L.M. McBride, the president, chairman, and chief executive officer of City National Bank of Fulton, KY, who is also the immediate past president of the Kentucky Bankers Association; and Charlie Bennett, the president of the Farmers Bank of Hardinsburg, KY, who is a director and leader of the Independent Bankers Association of America. These two prominent bankers, one the former president, immediate past president of the KBA; one past president and now director of the Independent Bankers Associations of Kentucky. Would you, L.M. McBride, come up and sit between Al McClain and Richard Turner. We want to hear from you next, along with Charlie Bennett. But I want these four State representatives to stay here because Congressman Stan Parris should be here any minute and I would like for him to know who you are and to express appreciation for your being here.

Let me ask my friend Thomas Larry Wilson if he would trade seats with Charlie Bennett there on the front row.

I hope that you Graves County officials, Bill Cates and Joe Stewart, can remain until our visiting Congressman has a chance to be here and meet you.

State Representative Tommy Todd, we will hear you next.

STATEMENT OF TOMMY TODD, STATE REPRESENTATIVE

Mr. Todd. Thank you, Congressman Hubbard. I would like to say it is my pleasure to be here in this far western part of Kentucky. Last night when we drove over I realized once again how broad it is from east to west.

Chairman Hubbard. Fred Nesler and I would share your understanding of how far it is from Mayfield to Somerset.

Mr. Todd. I will not attempt to address the farm credit issue and the farm crisis as these gentlemen have. I would like to say that our Chairman Burnette and Representative Bruce here are doing a good job I think in addressing these problems. And they are taking an indepth look at it, for sure. I am not certain that they have the answers, because, as you well know, they are very difficult. The answers are difficult. I think it is going to take a lot of hard work by people everywhere to take care of the situation.

In our area of Pulaski County, as you possibly know from Harold Rogers, who is our Congressman—and he is a good Congressman I think—our situation is quite different than here because we are so diversified with crops and livestock off the farm too. I do not think the farm crisis has hit us nearly as severely as I hear it has in western Kentucky where things are not as diversified. And I think this possibly could be an answer to some of the farm problems down the road—to diversify more. Thank you for this opportunity.

Chairman Hubbard. You are very kind.

[The final report of the Task Force on Farm Credit (1984-85), Representative Butch Burnette, chair, was submitted for inclusion in the record:]

REPORT OF THE 1984-85

FARM CREDIT TASK FORCE

Representative Butch Burnette, Chair

Sen. Greg Higdon
Sen. Louis Peniston
Rep. Clay Crupper
Rep. Billy Ray Smith
Rep. Richard Turner

Sen. Pat McCuiston
Rep. Jim Bruce
Rep. Sam McElroy
Rep. Tommy Todd

FINAL REPORT
OF THE
TASK FORCE ON FARM CREDIT

I. THE FARM CREDIT CRISIS: ITS CAUSES AND ITS SEVERITY

The 1980's for farmers have been years of stark contrast to the boom years of the 1970's. Farmers tore down their fences in the 1970's and expanded their crop production because there was a general perception that world demand would cause a continued growth in farm exports. There was also the perception that inflation would continue and long-term indebtedness could be paid off with less valuable future dollars. As a result of these expectations, farmers bought more farmland and in the process bid up its price. They also invested in new machinery and equipment. Many of these investments were financed with borrowed money and farm indebtedness increased 60 percent from 1971 to 1979. The attractiveness of the high farm prices of the 1970's lured many in this nation and in foreign countries into farming. Breakthroughs in genetics and farm technology increased farm production. As these events developed, demand for American agricultural products weakened, and farm prices and land values declined.

Today, farm debt and interest rates on farm loans are high. Farmers are faced with servicing their large debts with less earnings and less collateral as the value of their land drops. Even farmers who are debt-free have suffered declines in asset values and will continue to suffer as their neighbors' farms slip into bankruptcy and are sold at depressed prices.

thereby lowering all farmers' land values. In February, 1985, a sixty-seven year old farmer in Virginia was forced to sell his 460 acre farm which was valued at $1.5 million. It brought $275,000 or 18 cents on the dollar.

Number of Farms and Farmers. According to Kentucky Agricultural Statistics 1984-1985, there are an estimated 100,000 farms in Kentucky. That is down 1,000 from 1984 and 3,000 from 1981. Kentucky's 100,000 farms is the smallest number of farms on record for Kentucky, while the average size of a Kentucky farm, 145 acres, is the largest on record. There are 14.5 million acres in farmland in Kentucky and that has remained constant since 1982. Nationally, total farms decreased two percent from 1984 to 1985 which represents a net loss of 43,770 farms. The average size of a farm increased from 438 acres to 445. The total land in farms declined in 1985 to 1.02 billion acres. The number of persons who live on farms declined from 30.5 million in 1940 to 5.8 million in 1984, or from 23 percent of the population to 2.4 percent. Of those who are still farming, a decade ago 62 percent listed farming as their primary job, but at last count that share had dropped to 55 percent. It has been estimated that 15 percent of all farmers will be forced out of business by the end of 1986.

Farm Income. It is predicted that farm income in 1985 will range between $19 billion and $24 billion. That is 30 percent less than in 1984 and almost 40 percent lower than in 1981 after adjustment for inflation. It has been forecast that, in inflation-adjusted dollars, farmers' 1985 net income will be barely half of 1979's level. According to Kentucky Agricultural Statistics 1984-1985, Kentucky farm products sold in 1984 generated cash receipts of $2.65 billion which was down 3 percent from 1983 and 8 percent from 1982.

Farmland Values. Prices for farm real estate had increased for decades until reaching a peak in 1981. Farmland prices dropped 8 percent nationwide between 1981 and April, 1984. Ohio and Iowa land values declined 28 percent, Indiana's prices dropped 25 percent, Nebraska land value fell 24 percent, and land values in Illinois and Minnesota declined 20 percent. Each of those states had experienced farmland value increases in excess of 30 percent from February, 1977, to April, 1981.

In Kentucky, the drop in farmland values has not been as severe as some midwestern states. According to the U. S. Department of Agriculture, after increasing by 38.6 percent from 1977 to 1981, farmland values in Kentucky declined six percent from 1981 to 1984. According to Kentucky Agricultural Statistics 1984-1985, the average value per acre of land and buildings in Kentucky was $619 on March 1, 1977, rose to a peak of $1,058 on April 1, 1982, and declined to $906 on April 1, 1985. It has been claimed, however, that Kentucky's statewide average is deceptive due to the high price for land in the horse industry in Fayette and six or seven surrounding counties and the highly priced land in counties surrounding Louisville. It has been reported that good farmland sells in some regions of Kentucky for $250 per acre, while prices in central Kentucky average between $6,000 and $8,000. Some areas of western Kentucky have suffered land value declines of 50 percent. As farmland values in Kentucky drop, farmers find themselves with debts exceeding the value of their assets.

Family-Size Commercial Farms. According to the U. S. Department of Agriculture, there are 679,000 family-size commercial farms (annual sales between $50,000 and $500,000) which represent 31 percent of all farms and account for 5i percent of all sales of agricultural products. These farms have been perhaps the hardest hit by the current financial crisis. In

January, 1985, one-third of these farms, or 229,000, had debt/asset ratios of 40 percent or more and owed $98.2 billion which represents 46.3 percent of all farm debt. The debt owed by all family-size commercial farms is almost two-thirds of all farm debt.

Effects on Others. The farm credit crisis affects not just farmers, but many others in the food and agricultural economy. The Task Force heard from agricultural supply dealers who asked for some form of protection when they make advances to farmers for seed and other supplies. Farm equipment dealers have been closing at record rates. In 1980 there were 166,153 tractors sold, but this year it is estimated tractor sales will total 114,500. In 1980 there were 26,831 combines sold as compared to the estimated 10,500 in 1985. Machinery manufacturers have laid off thousands of workers. Taxpayers, too, have been affected. Farm price support programs cost taxpayers an average of $3 billion in the 1970's, but that had risen to nearly $19 billion in 1983. When that outlay is combined with the $9.4 billion spent on the PIK program in 1983, the government's expenditures in 1983 were larger than the net farm income that year. Another group that is feeling the effects of the crisis are the agricultural lenders who have loaned the money and are now fighting to survive as more and more farmers default on their loans.

II. AGRICULTURAL LENDERS

As of January 1, 1985, the total farm debt was $212.1 billion. Of that amount, the Farm Credit System held 31.8 percent, commercial banks held 23.9 percent (primarily in non-real estate loans), the Farmers Home Administration held 11.9 percent, life insurance companies held 5.8 percent, the Commodity

Credit Corporation held 3.9 percent, and individuals and others held 22.7 percent.

The Farm Credit System. The Farm Credit Administration is an independent federal executive agency that supervises the operations of the various banks in the Farm Credit System (FCS). There are 12 farm credit districts, each of which has a federal land bank, a federal intermediate credit bank, and a bank for cooperatives. Kentucky is in the fourth district which also includes Ohio, Indiana, and Tennessee. The principal office of the district is in Louisville. Mr. Raymond Schlader, President of the Federal Land Bank of Louisville and the Federal Intermediate Credit Bank of Louisville, testified before the Task Force on August 27, 1985. He said the Land Bank and Intermediate Credit Bank were merged in February, 1984. As of August 27, 1985, there were 11,300 Federal Land Bank borrowers in Kentucky with loans totaling $750 million of which there were 262 delinquent borrowers. There were 17,700 Production Credit Association (PCA) borrowers with loans totaling $318 million of which 373 borrowers were delinquent. There had been 71 Federal Land Bank bankruptcies and 109 foreclosures, and 112 PCA bankruptcies and 197 foreclosures. Mr. Schlader said that high interest rates are hurting farmers, but the federal deficit and trade barriers are also contributing to the farm credit problem. He also said that earnings for the 37 banks of the FCS as of June, 1985, were about $90 million, but that by the end of the year FCS could have negative earnings. The week after Mr. Schlader's testimony, Don Wilkinson, the Governor of the Farm Credit Administration, announced that the FCS could not absorb its losses. A few weeks earlier he had stated that the FCS would not need assistance. On October 30, 1985, the FCS asked Congress for a $5 billion line of credit from the U. S. Treasury. The FCS lost $522 million during the third quarter of 1985 and $426 million for the first 9 months of 1985. It has $13 billion in troubled loans. In testimony before Congress, it was reported that the Louisville district has one of the biggest problems. As of September 30, 1985, its nonperforming loans totaled $787 million. The district has written off $22 million in loans. The district has 3,000 loans totaling $537 million on which payments aren't being made. The district has lost $109 million during the first nine months of 1985. It has been reported that the district has 11,000 additional loans amounting to $1.5 billion that may be in trouble in 1986.

As the Farm Credit System struggles to save itself it has taken two steps which have rankled some farmers. It raised interest rates which some farmers feel will lead to more foreclosures and the loss of the most secure risks who will seek lower rates from competing lenders. The action by the FCS that has generated the most controversy, however, is the proposal to consolidate the land bank associations and production credit associations in the district. Under the plan the 62 land bank associations and 35 production credit associations will be consolidated into a joint land bank and production credit association in Louisville. Twenty-eight regional centers will handle loans in their regions. In Kentucky there would be six regional centers located in Mayfield, Owensboro, Elizabethtown, Lexington, Somerset and Flemingsburg. Opponents contend that the plan will remove power from local farmers and consolidate power in Louisville. Proponents feel that consolidation of resources is needed to meet the large loan losses in the district. Farmer borrowers (who are stockholders in the system), will vote on December 12, 1985, on the consolidation proposal. If enough associations approve it, it will take effect on December 31, 1985.

The Farmers Home Administration. The longstanding objective of the Farmers Home Administration (FHA) has been to provide credit to those farmers who are unable to obtain funds elsewhere at reasonable terms. FHA programs include farm ownership loans, farm operating loans, low-income loans, emergency loans for natural disasters, economic emergency loans, soil and water loans, and resource conservation loans. The purpose of farm ownership loans is to assist applicants to become owner-operators of family farms and carry on sound operations of the farm. The purpose of farm operating loans is to provide the credit necessary for family farmers to conduct successful operations. As of June 30, 1984, there were 267,252 active FHA borrowers with one or more of the programs. Of those borrowers, 94,035 (35 percent) were about $5.4 billion delinquent on scheduled payments on loans representing over $14 billion in unpaid outstanding principal. Of those delinquent borrowers, 16,093 (17 percent) were delinquent on at least one FHA loan for over four years. Mr. Kendall Seaton, State Director of FHA, testified before the Task Force on June 25, 1985, and November 4, 1985. Mr. Seaton said that Kentucky has a low delinquency rate compared to other states. It was eight percent in December, 1984, 20 percent on June 25, 1985, and 13 percent on November 4, 1985. His goal is to work with each farm family to bring the rate down to ten percent. Diversification of agriculture in Kentucky is the reason for the low rate. At the June meeting Mr. Seaton said FHA has loans to 10,200 farm families representing 23,000 loans and an outstanding balance of $750 million. At the November meeting he discussed the guaranteed loan program. The FHA has processed 89 guaranteed operating loans and 29 guaranteed farm ownership loans this year representing $13,630,000. The FHA has met with several banking groups to explain the guaranteed loan program. Under the program the lender puts up its money and the FHA guarantees it up to 90 percent. On October 7, 1985, the FHA adopted some new regulations to improve the guaranteed loan procedure. The changes:

(1) require the county supervisor to meet with the lender and process loan application within two weeks;

(2) permit line of credit loans;

(3) allow the lender to charge no more than one percent above what it charges it average customer;

(4) allow the acceptance of more banker-type loan forms; and

(5) waive the requirements that the lender have at least $2.5 million or 50 percent, whichever is less, in the total portfolio in agricultural loans. Mr. Seaton also discussed with the Task Force the interest rates charged by FHA. On operating loans the regular rate is 10 1/4 percent and the limited resource rate is 7 1/4 percent. On real estate loans the regular rate is 10 3/4 percent and the limited resource rate is 5 1/4 percent. Last year FHA loaned $112 million of which $73 million were for operating loans and 75 percent of that $73 million was at the limited resource rate.

As the farm credit crisis worsens, it appears that the FHA has decided to change its role as the farmers' lender of last resort. During the past year, FHA lent $3.4 billion to farmers and guaranteed another $1.1 billion in loans. In the current fiscal year FHA intends to restrict its direct spending to $2 billion and increase its guaranteed loans to $2 billion. The FHA hopes to get out of the direct lending business within three years.

Agricultural Banks. The Federal Reserve defines agricultural banks as banks with less than $500 million in assets and with farm loans accounting for 25 percent or more of total loans. There were 32 agricultural bank failures in 1984 and only seven in 1983. By June 19, 1985, there had been 30 agricultural bank failures which accounted for two-thirds of the banks that had failed. At the beginning of 1985, nonperforming loans exceeded capital at 102 agricultural banks, as compared to 44 at the beginning of 1984. The Federal Deposit Insurance Corporation, as of September, 1985, had 400 agricultural banks on its list of 1,030 problem banks. Commercial banks hold 40 percent of farm production loans and the farm credit crisis will worsen when those loans become due.

In June the Task Force heard a staff report on "Kentucky's Commercial Farm Banks" (see Appendix). The report found that, in contrast to most farm states, Kentucky's commercial farm banks were in very good condition based on both the bank's Return On Assets and the fact that only one Kentucky farm bank was on the FDIC's trouble list. While the explanation for this favorable condition is not fully explained, the fact that Kentucky commercial banks carry a significantly smaller share of the states total farm debt than do banks in other farm states. 42.4% of U. S. farm banks have half or more of their loans in agriculture compared to 12.4% of Kentucky farm banks. Also significant, but not quantifiable, is the large presence of tobacco in Kentucky's agricultural economy. Tobacco provides a dependable labot-intensive source of cash revenue that can be used to service farmers' debt.

III. RIGHTS OF FARMERS

On October 8, 1985, Attorney General David L. Armstrong of Kentucky testified before the Task Force on Farm Credit. General Armstrong joined with the ten other Attorneys General who serve on the Special Committee on

Agriculture of the National Association of Attorneys General in writing a letter to Governor Wilkinson of the Farm Credit Administration. In the letter the Attorneys General complained about the pattern of abuse within the Farm Credit System. The letter suggested several reforms including:

(1) disclosure to farmers the terms of their loans by providing copies of all documents;

(2) providing more notice to farmers of any pending change in the status of their loans and establishment of a formal procedure for review of internal decisions about loans;

(3) application of the same doctrine of forbearance to farmer-borrowers which is accepted policy of other lending institutions;

(4) realization that according to the Farm Credit Act of 1971 farmer-borrowers are entitled to certain information and rights as stockholders, and

(5) undergoing a complete audit of local and regional entities within the system by an impartial group.

IV. KENTUCKY AGRICULTURAL FINANCE CORPORATION

The Kentucky Agricultural Finance Corporation (KAFC) was created by the 1984 Kentucky General Assembly. The KAFC bond program allows a farmer to apply for a loan at a local bank. The bank analyses the loan, specifies what collateral is necessary, sets the interest rate and payment schedule, and, if it approves the loan, sends the loan to the KAFC for review. Upon approval, KAFC issues a tax-exempt bond with the same face amount and terms as the proposed loan. The bank purchases the bond from the KAFC and the bond proceeds are loaned to the farmer. Since the interest paid on the bond is exempt from federal income tax, the interest rate on the loan should be less than the rates of banks not participating in the program.

Shortly after enactment of the KAFC Act, Congress passed the Tax Deficit Reduction Act of 1984. That Act restricts proceeds of tax-exempt bonds for the purchase of land by first-time farmers, restricts loans for working capital, restricts the amount of industrial revenue bonds to be sold in a state, and outlaws agricultural revenue bonds at the end of 1987. The passage of the Act by Congress and the refusal of the IRS to provide the state with an interpretation of the effects of the Tax Act on Kentucky's KAFC Act, delayed implementation of the program and restricted its powers. In general, the program provides loans to first-time farmers for land acquisition and to existing farmers for acquisition of equipment, machinery and livestock. There are 42 banks participating in the program representing 36 counties. The first two loan applications were from Union County and were approved by the KAFC in early November. Two complaints of the program expressed to the Task Force are the length of the application and the prohibition on using the program for refinancing due to restrictions imposed by the Tax Deficit Reduction Act of 1984.

V. HEARINGS

On September 24, 1985, the Task Force on Farm Credit held a public hearing in Hopkinsville. The hearing was attended by more than 80 persons. Some of the remarks of those who testified were:

- It is difficult to obtain an FHA guaranteed loan in Christian County.

- Farmers are concerned about obtaining operating capital for the coming crop year.
- The Federal Land Bank filed suit against a farmer after the farmer had already begun advertising that his farm was for sale.
- One farmer who was behind on his payments was ready to make a $43,000 payment to the Federal Land Bank but the bank wanted to take the farm and rent it back to the farmer at $17,000 per year.
- Federal land bank association and production credit association boards need to be local boards and should not be consolidated.
- Interest rates need to be lowered by the Farm Credit System.
- Agricultural supply dealers need protection when they give farmers advances for their crops.

The second public hearing of the Task Force was held on October 21, 1985, in Morganfield. The hearing was attended by more than 60 persons. Some of the remarks of those who testified were:

- Land is worth about half of what it was worth three to five years ago. If land values were up to where they were in 1979, a lot of problems would take care of themselves.
- The problem is high interest rates, not principal.
- Agribusiness dealers should have a lien on crops and livestock or they may reach a point where they can only make cash sales.
- Federal restrictions on the Kentucky Agricultural Finance Corporation make it more cumbersome and expensive.
- Any linked investment proposal needs to be on a permanent basis rather than six or nine months.

VI. TASK FORCE ACTION

During the seven months that the Task Force has met, it has taken several actions as it heard testimony at meetings in Frankfort and at public hearings in Hopkinsville and Morganfield. The Task Force sent a letter to the Chairman of the House Ways and Means Committee of the U. S. Congress. Two resolutions were adopted and delivered to the U. S. Congress and the President of the United States and another was delivered to Governor Martha Layne Collins. Four bills have been presented to the Task Force as well as a proposal to strengthen the effectiveness of the Kentucky Agricultural Finance Corporation. A description of the resolutions adopted and legislation considered by the Task Force follows.

-A letter was sent to the Chairman of the House Ways and Means Commitiee of the U. S. Congress and a resolution was sent to the President of the United States and to the U. S. Congress urging an extension of the cutoff date for agricultural revenue bonds and calling for removal of the restrictions brought about by the Tax Deficit Reduction Act of 1984.

-A resolution was adopted requesting the U. S. Congress to provide funds to the Farm Credit System only if the Farm Credit System prohibits farm real estate foreclosures for one year as long as interest payments are kept up. It was pointed out in the resolution that farm foreclosures keep farmland prices depressed and compound the farm credit problem while denying cash-strained farmers the same chance for survival that was granted to Chrysler Corporation, New York City, and Third World debtor countries. The resolution was sent to the President of the United States, the U. S. Congress, the Secretary of the U. S. Department of Agriculture, the Governor of the Farm Credit System, and the President of the Federal Land Bank of Louisville.

-A resolution was sent to the Honorable Martha Layne Collins, Governor of the Commonwealth of Kentucky, urging her to declare an agricultural emergency in Kentucky and to take appropriate actions to prohibit farm real estate foreclosures for one year as long as interest payments are kept up. The resolution noted that the Governor of Iowa declared an agricultural emergency and imposed a farm real estate foreclosure moratorium to give Iowa farmers time to work out their farm credit problems.

-The Task Force considered BR 936 which provides that before farm real estate can be sold by a lender in pursuance of a judgment because a debtor is in default, notification of the sale must be sent to the debtor at least ten days prior to the date of sale and the debtor must be given the opportunity to purchase the farm prior to the date of sale. It is the intent of the legislation to prevent the selling of a farm after foreclosure to another person at a depressed price that the farmer-debtor could have afforded. The bill also prohibits final acceptance of an offer less than the initial selling price until the debtor has been given three days to accept the same offer. Under the Act, a debtor may waive his rights to the notifications if he has no intention of buying back his farm.

-The Task Force considered BR 1061 which creates an agricultural supply dealer's lien that attaches to crops and livestock for the retail cost of the agricultural chemical, feed, seed, or petroleum product, including labor furnished. The bill also provides that when a farmer seeks to buy from an agricultural dealer any agricultural chemical, feed, seed or petroleum product, the dealer may send a certified request to a financial institution with an interest in the collateral asking whether the farmer has sufficient net worth or line of credit to assure payment. The financial institution must respond within two days by memorandum. An affirmative response by the financial institution will entitle the dealer to use the memorandum as an irrevocable and unconditional letter of credit to his benefit for 30 days following the date on which the final payment is due. The dealer who receives a negative response from the financial institution will receive from the lender confidential relevant financial history on the farmer and may want to secure an agricultural supply dealers lien created under the Act. The bill is based on a 1984 Iowa law and was drafted in response to testimony of agricultural supply dealers at the two public hearings conducted in Hopkinsville and Morganfield.

-The Task Force considered BR 917 which creates a linked deposits loan program for small businesses and agribusinesses. The bill authorizes the State Investment Commission to invest in linked deposits up to ten percent of the state's funds determined by the commission to be eligible for bank investments, but no more than $70 million may be invested at any one time. Up to $35 million may be invested in low interest loans for agricultural production. The borrower will receive an interest rate three percent below the commission's repurchase agreement rate setting formula. Agribusiness may use the funds for annual working capital for production costs, interest costs, capital expense, and debt refinancing. The program will be of particular benefit to those farmers who need funds for debt refinancing which is a need expressed by many farmers at the public hearings held by the Task Force. According to testimony before the Task Force, the state would give up $2.8 million in investment income by lending $70 million at a four percent discount. A Ford Foundation study of a linked investment program in Illinois, however, shows that for every dollar given up in investment revenue, three to four dollars are returned to the state as personal income taxes, business taxes, sales taxes, and lower costs associated with unemployment.

-The Task Force considered BR 937 which permits any owner of real estate used for farming to apply for a moratorium on foreclosure at any time between the effective date of the Act and July 15, 1987. The moratorium may be granted by a court after a hearing for a period not to exceed one year. The bill permits a court to terminate the moratorium after a hearing if its finds that certain conditions exist. The bill draft addresses the concerns of those who feel that foreclosure should be the last step taken after all alternatives have been exhausted. Farmland taken by foreclosure is sometimes sold at low prices which further depresses all farmland values. A moratorium on farm foreclosures will provide some farmers with the time to work out their credit problems and save their farms, and add stability to the state's farmland.

-The Task Force on Farm Credit considered and recommended BR 980 which pertains to retail sales of farm equipment. The bill provides that when a farm equipment retailer's franchise agreement is terminated, the wholesaler, manufacturer or distributor must pay one hundred percent (100%) of the net cost of all new, unsold, undamaged and complete farm implements, machinery, utility and industrial equipment and attachments, and one hundred percent (100%) of the net cost of all new unused and undamaged repair parts. The bill requires the wholesaler, manufacturer or distributor to pay the retailer five percent (5%) of the current net price on all new, unused and undamaged repair parts returned to cover the cost of handling, packing and loading.

-The Task Force considered legislative proposals of the staff of the Kentucky Agricultural Finance Corporation (KAFC). The proposals would permit

KAFC loans to be used for property renovation, raise the loan limit from $250,000 to $500,000, and change the $100,000 income limit from gross income to net income. The definition of "applicant" is expanded to include "any other entities," such as joint ventures, co-ownership, and business trusts. The requirement that the applicant derive one-half of its income from agricultural endeavors is changed to one-half of its income prospectively for three years after the loan is approved.

-In June, the Task Force heard a staff report on the national farm credit crisis. Among the findings of that report were that, nationally, the return on assets in farming was 1.8% in 1983. This compares to a return of around 15% for assets in all industries. For the return to agriculture to begin to approach that of other industries, one of two things must happen: price for farm commodities must rise dramaticaly; or the value of farm assets must fall. Since around 1960, farm assets, primarily land, have been rising at a rate greater than the rise in commodity values resulting in a steady decline in the rate of return on those assets. The current rate of return implies that, on average, farms generate less than one-fifth the market rate of interest on their assets. This means that for the average farm, if its debts exceed one-fifth the value of its assets, it doesn't generate sufficient revenue to pay its interest, let alone any principle repayment.

It was also noted that while direct payments to farmers provide one-fourth of farmers net income, total government spending on agriculture of $20 billion, is approximately equal to farmer's total net income for 1985. Efforts to share-up farm income by increasing commodity prices would increase government costs and/or consumer costs and at the same time would decrease our ability to export by further increasing U. S. prices vis-a-vis foreign producers.

The general subject of farm exports and imports was also addressed by the staff report. It was noted that nationally around 25% of U. S. agricultural output goes into the export market. Agricultural imports, while rising, is still about one-half the level of exports. About 26% of Kentucky's agricultural production goes for export, including about 55% of its soybeans, 26% of its tobacco, and the vast share of its wheat, and livestock (including horses).

The report found that 60% of U. S. agricultural exports went to ten countries, lead by Japan with 15.8% of the total. The developed nations of Western Europe and Japan are playing a decreasing role in U. S. exports while several developing countries - Mexico, Korea, Taiwan, and Egypt - are becoming more significant. Canada is our largest trading partner overall and is major international competitor in farm products. The report underscored the delima that increased farm prices domestically would further erode exports and would spur imports causing a reduction in U. S. farm income. At the same time general import restrictions would reduce the foreign exchange revenue of the developing nations diminishing their ability to buy U. S. goods, or, alternatively, driving them to seek other suppliers (as happened with the Carter Grain Embargo). Well-meaning part government programs intended to support farm income have been significant contributors to pricing U. S. agricultural products beyond the world market. Modification of some of these counter-productive programs, along with a more rational federal fiscal policy allowing the U. S. dollar to fall against foreign currencies appear to be necessary steps to make U. S. agricultural products competitive on the world market place.

VII. CONCLUSION

The Task Force on Farm Credit recognizes that due to time constraints, jurisdictional problems, and the size and ramifications of the farm credit problem, there is a limited role it can play in alleviating the farm credit problems faced by Kentucky farmers. At the same time, however, the Task Force recognizes that it is incumbent upon each member of the Kentucky General Assembly to do everything possible to assist our farmers and provide stability to Kentucky's agricultural economy. The Task Force recognizes the vital role, even though limited by Congress, that the Kentucky Agricultural Finance Corporation plays and has sent a letter and a resolution to Congress asking that agricultural bonds be allowed to keep their tax exempt status, and has under consideration proposals to strengthen the KAFC. The Task Force recognizes the need of farmers to refinance their debts and has had drafted legislation creating a linked deposit program. The Task Force recognizes that farmers need time to restructure their loans, that the selling of land after foreclosure at lower prices depresses the land values of all farmers, and that it is vital that the decline of farmland values be stopped. Therefore, the Task Force has sent a resolution to Governor Collins requesting her to take whatever steps are within her power to prohibit farm foreclosures for one year as long as interest payments are met. Another resolution was sent to Congress asking that the same foreclosure moratorium be made a condition of any infusion of funds into the Farm Credit System. In addition, the Task Force has before it a bill draft that establishes a farm foreclosure moratorium. The Task Force recognizes that farmers have rights that shouldn't be denied by lenders who seek foreclosures and heard from Attorney General Armstrong on steps the Attorneys General of several states are taking to ensure those rights are protected. The Task Force recognizes the unfairness of foreclosing on a farmer and then selling that farm to another party at a price the debtor farmer could have afforded and has had drafted legislation to require that the debtor farmer be afforded the right to buy back his farm prior to the date of sale. The Task Force recognizes that agricultural supply dealers are leftunprotected when they make advances for feed, seed, and other supplies and has had drafted legislation to create an agricultural supply dealers lien.

Finally, the Task Force on Farm Credit recognizes that a farm credit crisis exists in Kentucky, particularly in western Kentucky. Although the crisis is not as widespread in this state as it is in other midwestern states due to the diversification of agriculture in Kentucky, there are many farmers in Kentucky under severe financial stress. The resolutions adopted by the Task Force and the legislation it has considered are not the complete answer to this crisis. But it is hoped that the actions taken by the Task Force and the information collected will prove useful to the members of the 1986 Kentucky General Assembly who seek legislative action to alleviate the farm credit crisis in Kentucky.

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MEMORANDUM

TO: Representative Butch Burnette, Chairman
Task Force on Farm Credit

FROM: Richard G. Sims, Staff Economist

DATE: June 13, 1985

SUBJECT: Kentucky's Commercial Farm Banks

At your request, I am undertaking a review of the Kentucky farm credit situation as it relates to farm lenders and have made some preliminary findings that might be of interest. These particular findings relate primarily to the private commercial banks engaged in agricultural lending. These banks represent about 24 percent of total U.S. farm debt.

Much of the concern nationwide as well as in Kentucky, about the farm credit situation, has centered on the plight of the farm banks. The concern has been that since rural communities have relatively few sources of borrowable funds, should farm banks in those rural communities get into credit trouble, the entire community would suffer. This would fall, of course, on top of the problems already incurred because of farmers' loss of financial well-being.

Nationally, farm banks, defined as banks that make at least 25 percent of their loans to farmers, comprise 28 percent of the 14,400 total banks. Of the 891 banks considered "problem" institutions by the Federal Deposit Insurance Corporation, 32 percent are farm banks. That would represent just under seven percent of all farm banks. This is in stark contrast to the 1970's and early 1980's when farm banks were among the most stable of lending institutions. For example, in 1979, loan losses for farm banks were .19 percent of total loans compared to .30 percent for other small banks. By 1984, losses at farm banks had risen 3 1/2 times to .67 percent, while other small banks had gone up to only .37 percent. During 1984, the number of problem banks grew by one-third. Eighty percent of that growth was accounted for by 11 states (Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, South Dakota, Texas, Wisconsin, and Wyoming). When California is added to the list, all other states together experienced a decline. The problem farm banks in those states number as high as 23 for Kansas and 33 for Iowa. (Source: FDIC "Consolidated Report of Condition for Insured Commercial Banks.")

In Kentucky, the FDIC reports one farm bank being in the condition of having troubled loans that exceed gross capital. This is out of 97 banks having more than 25 percent of their loans in agriculture. (LRC count based on data from the Sheshunoff Report on the Condition of Kentucky Banks) Based on that criteria, it appears that Kentucky farm banks are in generally sound condition.

The Kentucky banks were then analyzed with respect to rate of return on assets (net income divided by total assets). For the 336 commercial banks in the state the average rate of return on assets (ROA) was 1.008 percent as of December 31, 1984. The average ROA for the U.S. at that time was 0.74 percent. Kentucky's ROA average is about one-third better than the national average.

The U.S. average ROA for farm banks was 0.73 percent, slightly less than the average for all banks. In Kentucky, looking first at the 158 banks with more than 15 percent agricultural loans, their ROA was 1.032 percent, up 0.024 percent over the average for all banks. Looking next at those 97 banks with over 25 percent agricultural loans, the ROA was 1.15 percent -- 14 percent above the Kentucky all bank average and 58 percent above the U.S. farm bank average. The 19 Kentucky farm banks with over 40 percent agricultural loans had an ROA average of 1.18 percent; 17 percent above the average for all Kentucky banks. In short, for Kentucky, the higher the portion of a bank's loans in agriculture, the higher its rate of return on assets.

The explanation for this unexpected outcome is not clear. However, several possibilities are being considered. For example, it may be that commercial banks in Kentucky hold relatively less of the state's farm debt than do banks in other states. This would mean that the Farm Credit System, individuals and other lenders, hold relatively more, and that the banks were able to be more selective in the customers choosing better credit risks. It also appears that Kentucky farm banks carry a smaller percentage of agricultural loans than do farm banks generally. Nationally, farm banks average 44.8 percent of their loans in agriculture. Kentucky farm banks average 37.2 percent. More significantly, 42.4 percent of all farm banks have over 50 percent of their loans in agriculture, while the comparable figure for Kentucky is only 12.4 percent. Kentucky has only two banks with as high as 70 percent of their loans in agriculture. Kentucky banks' high degree of diversification as indicated by their low proportion of high farm loan banks undoubtedly accounts for a large part of Kentucky farm banks relative well-being. In addition, the role of tobacco as a major cash crop for Kentucky farmers cannot be overlooked. As a labor-intensive low risk crop tobacco provides the cash-flow that allows the farmers to pay his bills when highly leveraged crops such as corn, wheat, and soybeans are showing a loss. With tobacco accounting for around 30 percent of the total value of Kentucky's agricultural production the implications of that crop on the state's farm credit situation cannot be overlooked.

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Chairman **Hubbard**. Thank you very much. I want to ask you all to hold your places and remarks at this point because when Congressman Stan Parris is here I want you to comment again briefly for his benefit. So at this point let me call one more time on Jim Bruce and then our two bankers who are here.

Mr. **Bruce**. We talked about the Farm Credit System, but I do have one or two suggestions that might give you some ideas of what might help the farmer and the Farm Credit System. If you want me to, I will hold that remark——

Chairman **Hubbard**. I wish you would hold it for Congressman Parris' benefit. Incidentally, Congressman Stan Parris represents 560,000 people as I do. His constituents are in the suburbs of Washington—northern Virginia, McLean, Arlington, Alexandria, Mt.Vernon, Centreville, where Mary Martha lives, and some other towns. His district is an urban area for sure, just over the bridges from Washington, DC, into the suburbs of Virginia.

L.M. McBride, longtime chairman and chief executive officer of City National Bank of Fulton, and last year's president of the Kentucky Bankers Association, would you be our next witness?

STATEMENT OF L.M. McBRIDE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CITY NATIONAL BANK OF FULTON, KY, PAST PRESIDENT, KENTUCKY BANKERS ASSOCIATION

Mr. **McBride**. I will be glad to. First of all, I would certainly like to thank Chairman Carroll Hubbard and his House Banking Subcommittee for coming to western Kentucky to hold this hearing concerning a matter which is of utmost importance not only to the agricultural lenders of this area but of utmost importance to all of the citizens of this area. And not only do the farmers depend upon the farm economy, but so do many of our other people who are in business in western Kentucky, which has already been said. They depend on this same agricultural economy and its well-being. And let's face it—the agricultural economy is in a mess, to put it mildly.

Many of the things or some of the things that I was going to say have already been said here today by Representatives Burnette and Bruce and the others. Some of the things that I say may be repetitive, but maybe they need to be repetitive and brought home a little more.

Of course, this thing has been brought about due to the fact that our agricultural producers simply do not have enough margin between the cost of production and the price that they can receive for their products to service their debts and make a living. That is to put it as simply as I know how to put it. The margin is just not there today.

We know that we have some of the best producers here in western Kentucky that you will find anywhere in the Nation. There is no doubt about that. Yet we find some of these who have a sizable debt to service are on the brink of financial ruin. And, of course, some of them have already gone under.

In western Kentucky not nearly as many farms are going under the hammer as are in the Midwest, but a lot of them are in serious financial trouble. Some of them who do not have a great deal of debt are certainly not receiving ample return on their investment, and their net worth is decreasing every year as land values decrease and as margins continue to decrease.

Things are getting difficult for many farmers to make financial arrangements, to continue farming operations. Farm equipment dealers and other agricultural related businesses are having problems. As the crop prices have been plunging during the past year and profits disappear, requests are coming from farmers for help from lenders in order to tide them through these tight times that we are having. Farmers are seeking relief from high interest rates, as has been alluded to already, and although as bank interest rates have been coming down some, the Farm Credit System interest rates have been increasing. All of these rates need to come down further.

Farmers need a lengthening of the amortization period to reduce payments and ongoing credit for production, and in some cases, to carryover a portion of the current operating loans. But when the profit margins of borrowers in any industry, farming or any other, are virtually nonexistent, the lending institutions naturally become concerned, because they don't know where the money is going to come from to pay these loans off. This is money that belongs to depositors, and lending institutions are charged with the responsibility of protecting and taking care of this money. They must do this if they are going to stay in business. So the collateral has to be there, and the ability to repay loans.

This creates a very serious problem. This is certainly happening today across rural America as it has in tight economic times before. I have been privileged and had the opportunity of serving—and this makes the third year—on the Advisory Board of the Community Bank Council of the American Bankers Association, and as such, I have been able to meet with bankers from all 50 States. Some of the stories that I hear coming from the Midwestern States, such as Iowa, Nebraska, Kansas, and Oklahoma, and through the big grain producing areas where agriculture is the main economy without any diversification, there have been some real horror stories, and our situation, of course, in this particular area of western Kentucky, although bad, it is not as bad as in some parts of the country. But we must have a turnaround of some kind to allow the farmer to get a fair return on his crops and allow him to make a profit on what he produces. It just has to happen or, otherwise, he is going out of business and someone is going hungry.

Let us take a look at what partially brought about this situation. A few years back the local banks and PCA's provided much more of the agricultural credit than was needed in the various counties. Sure, there were some other places where a farmer received credit. Local merchants and agribusinesses, for example. For his major production loan the farmer went to the bank, and his banker would look over his entire balance sheet and work with him, or the PCA, closely in managing his debt. Then came the 1970's surge in foreign demand for U.S. grains and soybeans, and everybody was scrambling to get money to the farmer, just as you fellows brought out awhile ago. Everyone wanted to lend farmers money. This happened in farm regions all over the country. We saw Government-backed lending institutions intent on boosting production and keeping commodity prices cheap. They pushed a lot of farmers to borrow, to create even bigger grain and soybean units and bring new land into production. Planting from fence row to fence row, so to speak, to feed the world and to produce cheaper food.

We saw that insurance companies with premium income to be invested became a source of agricultural mortgage money. Service requirements for loans were easy for them. The loans were secured by income producing real estate, well collateralized. And companies pushed hard to boost their lending to farmers, because at that time there was only one way farm values were going—and that was up. That was the only way. There seemed to be no other way but up.

Immediately after World War II farm land started going up. And I thought farm land was too high when it was priced at $100 an acre. That was a long time ago. When it got to $200 an acre, I knew it was too high. Yet it kept going up and up. The collateral seemed to be there for a lot of these lending agencies to continue to lend, to continue to push, and to continue to try to get more production and cause agriculture to grow and produce cheaper food.

Farm equipment dealers brought out new lines of machinery and made easier credit arrangements available for purchases. Little or nothing for a downpayment, if you will recall, first installment after harvest. And many expensive new pieces of equipment went from dealer lots and onto the fields with a combination of big expensive equipment being sold, and with increasing numbers of big farm units and the crop prices and profit ranges increasing, this loan category soared. Some of the lenders said no payments for a whole year. Do you remember that, Butch?

Mr. **Burnette**. Yes.

Mr. **McBride**. Some of them had no payments for a whole year, and things like that caused farmers to get heavily into debt on farm equipment. Of course, nobody twisted their arm, but it was easily and readily available to them.

So here we were essentially with three major independent sources for farmer lending, often not paying close enough attention to each other's activities and not paying close enough attention to ability to repay from cash flow because we were looking at rising values in equity in land and machinery for security because it was there. It kept going up, and equipment and land were worth more every year. You see the problem was that there was not much coordination between lenders, the providers of credit, or very little coordination.

Now let's look at what the explosion and this long-term debt did to the farmers' need for short-term debt and his ability to handle it. Let's look at crop loans, or production loans, which is the money that a farmer needs to prepare his fields, plant the crops, fertilize the seeds, with chemicals tend his crops through the season, and finally harvest them and deliver them to the market for sale. The farmer used to set aside some profit from the sale of last year's crops after expenses were paid. However, when he had dipped into his savings to finance equipment and land purchases and farm operating costs started going up, too, with the general rate of inflation, especially when interest rates persisted in higher ranges; then crop prices sagged and crop loan totals just skyrocketed, often approaching the full financing for the entire season. In some instances the crop loan total has been greater than what the farmer could actually get for his products for that particular year. He has not made enough income from that particular crop to pay his crop production loan for that year.

And while farms were getting bigger and credit needs were growing, by the same token the lending ability of the typical country bank was not keeping pace because the lending limits of the country bank, as has been brought out, were limited by the regulatory authorities to a certain percent of the capital surplus and undivided profits. So many of these farmers had to go to the Federal Farm Credit System for the larger amounts of money that they had to borrow.

We in our bank have been able to handle most of the credit needs of our customers. If they were over their legal limit, then we were able to go to our larger correspondent bankers for help in some of these participations.

Many of our farm borrowers, however, went to the Federal land banks, the PCA's, and Federal Farm Credit System lenders, because they could get a cheaper interest rate from them than they could get from their bank. At that particular time the amount of interest that we were having to pay for money was such that we could not compete with the Federal land bank on the interest they were charging.

I recall that one particular customer of ours with whom we had a loan was able to go to the Federal land bank and borrow money at a lesser interest rate than we had to charge him. He was then able to turn around and loan a portion of that money back to the Federal land bank or the Farm Credit System, Federal credit banks, at a higher rate than they were lending to their customers, even to him. It was about 1 or 2 percent higher, due to the method that they were using to arrive at the interest rates they were charging.

Chairman HUBBARD. If you would let me interrupt you at this point.

Mr. MCBRIDE. Yes, sir.

Chairman HUBBARD. You and the others would do me a big personal favor if you would join me in giving a standing ovation to our visiting Congressman Stan Parris, of Virginia, who has finally made it.

Thank you very much. Thanks to State Trooper Brown. Thank you very much Judge Lynn Bennett, our district judge for Graves County. We appreciate your being here with us.

Congressman Stan Parris, we are so glad you are here. Believe me, he has made an effort to be here today. He awoke surely before sunrise this morning to catch a very early plane from Washington to Louisville and then a small twin-engine plane has been flying up in those clouds between Louisville and Mayfield. State Trooper Brown, Harold Garrison, and Tony Kinne of the staff met his plane. We are just glad you are here.

Would you say a few words to us before I introduce you to some of our witnesses? Would you want to wait a minute to catch your breath or can you say a few words for us?

Mr. PARRIS. Yes, I would be delighted to.

Chairman HUBBARD. This is Congressman Stan Parris, an outstanding Member of Congress. The ranking Republican Member of our subcommittee, he represents the suburbs of Washington over in Virginia. In fact, he is my Congressman. Stan Parris.

Mr. **Parris**. Thank you very much, Carroll. I am delighted to be here. I have a very brief opening statement that I wanted to put into the record with your permission and unanimous consent to do so. I will not bore you with it all. I do not know if this is the appropriate time to do that or not.

But let me just initially say that I am delighted to be here in Kentucky. I wish it was closer to Kentucky Derby time, but still I am glad to be here. As Carroll said, it has been a real week in the Congress. Last night we—I guess I got home about 2 o'clock, something like that. It was 1:30 the night before and I think 1 o'clock the night before that. So it has been some short nights and long days.

But you will be happy to know that the Nation has survived because the Congress is now in recess and we cannot do any more damage to you until January.

So with that, let me just defer back to you, Mr. Chairman and when you get ready to hear just a few remarks from me, you let me know.

Chairman **Hubbard**. Ed Carroll, we appreciate your being here. He is the minority staff counsel for our subcommittee and for Congressman Parris. And he, too, has made that difficult trip from Washington to Mayfield, KY.

You know this is my hometown. I am very proud of this town. We do not have skyscrapers like in Arlington and Alexandria, but we have the Hall Hotel over here that is about six floors high. That is where my parents spent their honeymoon night years ago after they were married at Benton, KY. They came to Mayfield to spend the night in the Hall Hotel. It sounds exciting, doesn't it?

We are glad you are here, and you honor me by coming to my hometown and visiting here. We have with us some real talent. We are going to hear more from L.M. McBride. But let me, if I could, Charlie Bennett and L.M. McBride, introduce at this point these people. The first is the Commissioner of Agriculture David Boswell, a western Kentuckian from Sorgho, KY. Owensboro is a suburb of Sorgho. I believe that is right, is it not? He is from Daviess County and he is a former State representative who has represented counties in my district and also in the Second Congressional District represented by Congressman William H. Natcher. David Boswell will speak next because he has flown from Frankfort to Mayfield for this hearing and perhaps needs to return. But you have met former State representative and now Commissioner for Agriculture for Kentucky David Boswell.

Mr. **Parris**. Yes.

Chairman **Hubbard**. This is my mayor here who gave remarks earlier, Virgil Gilliam.

Mr. **Gilliam**. Welcome.

Mr. **Parris**. Thank you.

Chairman **Hubbard**. My County Judge/Executive Dick Castleman who spoke earlier. This is Charlie Bennett the longtime head of the Independent Bankers Association of Kentucky and the director of the Independent Bankers Association of America. Charlie is from Hardinsburg, KY. You flew over Hardinsburg this morning but may not have noticed it, because you were in the clouds.

Mr. PARRIS. Whether you know it or not, it is snowing at your house.

Chairman HUBBARD. State Representative Tommy Todd represents the county where my wife hails from, Pulaski County. Tommy Todd is a leader in the Kentucky General Assembly and from the community of Nancy, KY, near Somerset. He is the outstanding Republican in the State legislature.

Mr. PARRIS. Excuse me. Hal Rogers is from Somerset?

Mr. TODD. That is right.

Chairman HUBBARD. And our mutual friend we might add, Tommy Todd. State Representative Jim Bruce. He has been at it 23 years in the Kentucky Legislature. That is a long time, isn't it? Twenty-three years. He is the dean of the house of representatives in Frankfort. He is a Christian County farmer from over here near Hopkinsville, KY. He and his wife Janie are here with us this morning, and Jim has been testifying earlier.

State Representative Ward "Butch" Burnette has been for 8 years a State representative?

Mr. BURNETTE. Ten.

Chairman HUBBARD. Ten years a State representative. He could be our next agriculture commissioner in Kentucky. And by the way, this young man could be our next Lieutenant Governor. Do not be surprised.

Stan, you are in a good place here. This county is 94 percent registered Democrat, but Ronald Reagan swept it last November.

Mr. PARRIS. That's my kind of Democrat.

Chairman HUBBARD. But he could be our next Lieutenant Governor. This young man—I say young man because he is younger than I am, he could be our next agriculture commissioner. He is the chairman of this task force. It is a 10 member task force and 4 of them are with us this morning.

State Representative Richard Turner is a Republican leader, minority whip in the State house——

Mr. TURNER. No, floor leader.

Chairman HUBBARD. Minority floor leader. He is from Monroe County, Tompkinsville, KY, in Hal Rogers' district. He represents two counties represented by Congressman Natcher, which are which ones?

Mr. TURNER. Allen and Simpson.

Chairman HUBBARD. Congressman Richard Turner, we are so happy he is here. He and Tommy Todd have come some distance.

We were just hearing from L.M. "Mac" McBride. He is the immediate past president of the Kentucky Bankers Association, and the chairman of the board over at City National Bank in Fulton, KY, which is about 20 miles west of here. We were hearing from him when you arrived. But if he would not mind, I am going to ask our agriculture commissioner if he will next be our witness.

Mr. BOSWELL. I will be glad to wait until he finishes his remarks, Congressman Hubbard.

Chairman HUBBARD. We are going to hear from him again.

STATEMENT OF DAVID BOSWELL, COMMISSIONER, KENTUCKY DEPARTMENT OF AGRICULTURE

Mr. BOSWELL. First of all, it is indeed my pleasure to be here with you today and talk about the problem that is not a new problem to farmers not only of our State but the entire country. I have prepared remarks that are quite lengthy, and I have filed those with Chairman Hubbard and will forego going through verbatim the remarks that I have before me here today. But I will give you a little synopsis as to what we feel needs to be done.

Now I look out into the room here and I see a lot of familiar faces. Faces that have appeared at farm credit hearings and hearings that we have sponsored across the State to receive input on the 1985 farm bill as well as tobacco legislation. And of course I do know that Chairman Burnette and the other members of the legislature have sponsored similar meetings. I do not want to be redundant and repetitive in my remarks.

But I think that the figures certainly speak for themselves. Over the last 5 years this country has suffered a loss of approximately 200,000 farmers and ranchers. Approximately 2,000 right here in Kentucky alone, a little over 2,000 probably at this point. I think that those figures speak for themselves. They point to the problem that we have in this country as it relates to agriculture. And of course we do know that one of the major portions of that problem is farm credit.

Through the years we have seen farm lending institutions try to promote farmers to borrow additional moneys. It seemed like the sky was the limit. This is a subject that kind of disturbs me. Not more than 3 weeks ago we were in Louisville, KY, to kick off the farm/city breakfast there, Farm/City Week. I shared the platform with the former Secretary of Agriculture Earl Butz. It was very disturbing to me to hear Mr. Butz stand before that crowd of people in Louisville, KY, the very Secretary of Agriculture who urged the grain farmers of this Nation to knock down their fence rows and plant from fence row to fence row, with the decree that "you produce it and we will sell it." The Government will be there to help you sell it. Well that same Secretary of Agriculture said something like this. He said:

> The farmers are no different than the guy that owns the gas station that is now out of business and the guy that has the drug store that is now out of business and the guy that has the other shopping center type businesses that are now out of business.

I could not believe what I was hearing, coming from a man of his educational background, not understanding and recognizing that when agriculture in this Nation prospers, the very industry that is the foundation block of this Nation's economy prospers. The people in the service station business survive; the people in the grocery business survive; and the shopping centers will flourish. I think that it is indicative of the overall attitude that we have in this country today. I think there has been a keen lack of understanding in Washington. I would like to take the opportunity to compliment our Congressman Hubbard and the Kentucky delegation, both our Senators and our seven Congressmen, for their sensitivity toward agriculture in this State and overall in this Nation.

But we look at the overall makeup of Congress, and I have to honestly say I think that there is a keen lack of understanding. We sit here today, less than—maybe 3 weeks from the close of 1985—and we see that we are just now getting the 1985 farm bill in a position to pass. I know the legislative channels, and I know the steps that we have to go through in Washington to do things. But I think the lateness of the consideration of this farm bill in part is indicative of the attitude that we are faced with in agriculture today in this country.

We must have more definite policies set for agriculture I think to stabilize the marketplace, to stabilize the income that our farmers should receive. We just simply cannot do it when you have one Secretary of Agriculture who urges the grain farmers to knock their fence rows out and plant from fence row to fence row, only to have a change in the administration. I would like to point out that we are looking at a subject here where there should be no partisan politics involved—Democrat, Republican or any other party. There is no room for partisan politics in agriculture in this country because of its economic importance and because of what it means to the livelihoods of so many Americans.

The livelihoods of many Americans in addition to farmers depend upon agriculture. In fact, 1 out of 3 jobs in this State, and in the Nation I think owes its very existence to some form of agriculture; 1 out of 14 jobs here in Kentucky owes its very existence to the tobacco program itself.

I think one of the major crimes that we have committed is the low interest on foreign loans we make. We have brought this to the attention of Agriculture Secretary Brock on more than one occasion, and he has made assurances to the leadership in the house and the senate here in our State legislature and me that the Government will monitor the loans that are issued. But it seems that we make loans to foreign countries to the tune of 4 and 5 percent interest to those countries which turn right around and support and subsidize their farmers who compete against our farmer who has to pay 13 and 14 percent on their money. That is a crime and we are being bludgeoned to death.

I think what we are seeing in agriculture today is what we have seen before, and you would think that we would learn a lesson. What we have seen happen to us in the electronics industry; what we have seen happen to us in the steel industry; what we have seen happen to us in the aluminum industry and the automobile industry and on and on and on. The same thing is happening in agriculture.

Look around this room and look at the number of people who will testify here. I see our legislators here, and I would like to compliment our State legislature. I do not think there has been one time that I have gone to the Kentucky General Assembly and asked for assistance to help the farmers of this State that they have not surfaced with 100-percent support.

I see that we have here today the chairman of the Kentucky Agricultural Finance Authority, Mr. Charlie Bennett. Our legislature in 1984 had the foresight to pass legislation that would provide an ultimate lending mechanism to the farmers of our State. You know, we kept hearing from Washington about the need to reverse the Federal Government's role in farm credit. We kept hearing that States must take more of an active role in helping their farmers. Well, our State legislature had the foresight to do that. We passed the 1984 agricultural bonding law that set in place a mechanism whereby our farmers in Kentucky could take advantage of a lower interest rate lending program through the sale of industrial revenue bonds. Only to have the Deficit Reduction Act to pass in 1984, that destroyed this lending mechanism for farmers that we had set in place.

Today we do have a program to help—we just issued two loans over in Union County to a couple of young farmers. But they limited that program to first time farming ventures, I do not know too many people in Kentucky and in the Nation who are willing to get into this risky farming business of today.

I think the concept of trying to promote more private sector funding for agriculture is good. But Washington is trying to market that concept at a time when it is probably the worst time in the history of this country to market that concept. It is just not a saleable commodity at this point in time.

To quote a very famous American to sum up my remarks here today, a fellow by the name of William Jennings Bryant, I think put it quite properly back about 100 years ago in his famous Cross of Gold speech before the Democratic National Convention. It went something like this. He said, "Burn down your cities and save our farms and the cities will spring up again as if by magic; but destroy our farms and the grass will grow in the streets of every city in this country." There is more truth to that today. Today, when we feed not only ourselves but a good portion more of the world than ever before in the history of this country, we must, I think as we leave this room here today, leave this room with the enthusiasm that you obviously have or you wouldn't be here. We need to spread the good word of how agriculture affects the daily lives of everybody in your community.

Congressman Hubbard, Congressman Parris, it is certainly my pleasure to be here. You do have a copy of my prepared remarks of which I just briefly gave a synopsis. I am here to learn today as well. Thank you very much for the opportunity.

[The prepared statement of Commissioner Boswell follows:]

PREPARED STATEMENT OF COMMISSIONER DAVID E. BOSWELL, KENTUCKY DEPARTMENT OF AGRICULTURE

Congressman Hubbard, friends, ladies and gentlemen . . . I welcome the opportunity to discuss briefly here today the circumstances in which Kentucky Farmers find themselves unable to afford the costs of the work they do so well . . . forced in some cases to leave the land they love, accepting bankruptcy or buyouts at as little as 30 cents on the dollar.

It is difficult to accept the reality that such tragic accounts of life on the farm are not just occurring out in the Western grain belt, in Nebraska, Kansas or Iowa . . . or that these events are not recitations of the horrors of a bygone era, the depression-ridden dustbowl horrors of a half-century past.

No, this trouble is with us today, now. As we meet here today, Kentucky farmers are being forced from their farms.

In the past three years, nearly a quarter-million families have had to leave their farms and ranches in this country because the price they could demand and receive for their product would not pay the costs of production. Thousands of those families are Kentuckians. They are victims of high interest, high production costs, a strong dollar, diminished international markets and lower and lower prices for their goods.

Farmers have lasted for years suffering the kinds of economic conditions that would have withered multi-national corporations in a matter of months. Farmers have the misfortune of having become such an accepted mainstay of society and the economy that they are literally taken for granted.

We live in a country whose underlying philosophy is one which demands that food and fiber be cheap . . . that it must cost very little. We spend less for food in this country than anywhere else on this globe. Less than 16 percent of the disposable income in this country goes for food. That beats the next country by six percent.

Of course nobody insists that other industrial elements in the food and fiber chain make the same sacrifices we demand of our producers. The farmer receives but 27 measly pennies for every dollar spent on food in this country today. The older 73 cents goes to those who receive the food, clean it, chill it, freeze it, process it, transport it and then finally sell it.

The farmer tries to survive in a system that encourages him to grow food as if there were no tomorrow and, because of the plentitude of his harvest, accept the artificially low prices which the economy forces on him.

Let there be no mistake that the farmer at no time in recent memory has been the architect of his own fate. No . . . those decisions are made in the halls of Congress . . . in the offices of those in power in our nation's capital. Tell me . . . what other business can you name in which the principals—the producers—had little or no say over whether or not they could or would make a profit from their labors a few months hence?

What other business to your knowledge is dependent completely upon the whims of the weather, the bureaucracy and the economy for survival?

There are those in this country who really don't understand the nature and the origins of the plight in which the American farmer finds himself. They see the abundance of produce in this country and wonder why the farmer cannot make a living. They see the large mortgages on land and equipment and wonder why farmers could be such poor businessmen. They listen to the critics, such as this Administration's recently resigned budget director, and are made to believe that the American farmer is solely responsible for the plight in which he finds himself.

That, for the most part, is just simply not true. There was a time not so long ago when the Federal Government told this nation's farmers that the sky was the limit . . . that if they knocked out the fences and planted fence row to fence row, the Feds would sell all they could produce. Times were good, the economy was strong, our produce was selling well in other nations, and the dollar was healthy.

Well, farmers followed that advice. They bought more land and equipment, often biting off more than they really believed they could chew, but here was an opportunity that wasn't to be passed up. They mortgaged themselves to the hilt. We understand today the folly of those actions. We see today that in most cases the farmers not in difficulty are those who did not extend themselves back in the late seventies and early eighties.

Along came the changing of Administrations and another President and another Secretary of State were in place, and suddenly embargoes of sales of American grain and other products to foreign nations were imposed. Suddenly the American farmer had dramatically fewer markets for his crops.

It is crystal clear today that if we had fewer Secretaries of State and Secretaries of Defense making farm policy . . . or to put it another way, if we had less foreign policy built on the backs of this nation's farmers . . . agriculture would not be in the pickle it's in.

It hasn't been so long ago that the various states were told that they should take steps to help out their troubled farmers. Well, in Kentucky, the General Assembly in 1984 passed what we call the Agri-Bonds Law . . . setting up a corporation to work with local bankers to utilize the proceeds of industrial revenue bonds to extend to Kentucky farmers a low-interest alternative source of borrowing.

The program was hailed as a boon for farmers, some real help through which Kentucky farmers could work their way out of their financial dilemma.

But here comes the Federal Government again. Mr. Stockman and the IRS decided that farmers should not benefit from the uses of industrial revenue bonds. That although those kinds of financial tools had been used for decades to build shopping centers, fast food restaurants, downtown malls and every other development known to man . . . farmers should not be able to use them. So the Tax Deficit Reduction Act of 1984 limited the agricultural use of the bonds generally to first-time farmers . . . and to top things off, the Feds imposed a sunset provision, putting an end to even those limited uses in the not-too-distant future.

Only today can we report in recent days the first approvals of Agri-Bonds loan applications . . . nearly two years after the passage of this state law. There are not many avenues open to state governments to offer to their farmers the level of financial assistance they need. We are doing what we can in Kentucky . . . because we recognize that whatever it costs, our farmers deserve the help, need the help and must survive.

We are still trying. There has been drafted for consideration by the 1986 Kentucky General Assembly legislation calculated to utilize for farm loans idle state general fund dollars on deposit. A plan is being developed to work with local banks to share the cost of delivering quite low interest loans for operating capital and possibly for refinancing existing debt. This plan could be the most useful device yet for helping Kentucky farmers survive this financial nightmare.

But at the national level, there is much, much to be done. The Federal Farm Credit System has asked for $6 billion to bail out the banking network now trying to cope with mounting farm loan failures and to restore the shaken confidence of farmers and investors. The governor of the Farm Credit Administration warns that should the system fail, the impact on financial markets and the national economy would be on the order of a tidal wave. But the Reagan Administration has said that it will assess these requests only after Congress comes up with legislation to cause some reforms in the management of the system.

We are reminded of the time when Chrysler Corporation came to the Federal Government and asked for millions of dollars of help in order to forestall bankruptcy. It was said about Chrysler that the company was too important to allow to fail. Then we remember when the City of New York was also extended altogether unprecedented financial help by Washington because it was having some economic stress. More recently, the Continental Corporation of Chicago has been the recipient of Federal largesse because of fears that its failure would disrupt the financial community.

Well, what about the farmer and the system he depends upon for financial help? What more important crisis faces us than the faltering agricultural banking system? What more important job faces us than shoring it up and making sure it does not fall?

We all know that little relief is in sight in the farm economy. Bumper crops and record participation in Federal programs will keep many farmers alive this year, but fundamental farm economics are dismal. The value of land which represents the collateral for most farm loans continues to drift downward and is expected to dwindle even further.

Commodity prices are hovering near seven-year lows and don't show any signs of rebounding. The prices farmers are receiving are an average 13 percent lower than last year . . . that's for all products. But the costs to produce those crops, from fuel to fertilizer, is down less than 1 percent.

Open market corn prices are down about $2 a bushel, 30 percent lower than last year, and soybeans are down under $5 a bushel, lower by 15 percent than last year.

As I close, I want to make a couple of points underlined in a recent *Wall Street Journal* editorial contribution by Tom Barlow, a Western Kentuckian who writes for the Journal on farm and resource issues.

Barlow makes the appropriate point that the Federal Government bears a heavy responsibility for the plight of American agriculture today. He says that because of the history of encouraging high production, farmers have a right to seek and expect income guarantees when government-induced supply has forced prices into such steep decline that costs of production cannot be recovered.

Barlow continues that farmers do not have to be sensitive about receiving price supports . . . and let met insert here that this nation should be supportive of farm credit assistance, too . . . because these items are certainly not handouts. They are, in fact, an annuity being returned for the profits and the prosperity farmers have been denied for years.

Barlow points out that the soybean and wheat embargoes compounded the injury to farm financial structures. The damage became long-term because purchasers have shifted demand elsewhere as a hedge against future embargoes.

The fact is that this nation has lost irretrievable shares of its international commodity market because of the instability of American foreign policy that unfortunately held food production hostage.

Ladies and gentlemen, my comments are intended to undergird the argument that the Federal Government has a responsibility to develop a more workable program of support for its farmers. It also has a continuing responsibility not to suddenly rush to deliver the American farmer into the land of the so-called free market . . . until the market is truly free. And there is a full responsibility to do what it takes to save the Farm Credit System.

I earnestly recommend that sufficient dollars be infused into the Farm Credit System to cause it to survive its current crisis. That, in my opinion, is the least that should be done by Congress and the Administration at this time. And it should be done immediately . . . not wait until some political haggling over bureaucratic niceties is completed.

Additionally, I recommend that steps be taken to turn around those actions that stand in the way of low interest loan alternatives the various states can create for farmers. Specifically, I am speaking of the current Deficit Reduction Act that is impeding the kinds of agricultural uses to which industrial revenue bonds can be put. I urge that those rules be loosened so that farmers can enjoy some of the same flexibility developers have been able to count on for decades.

Also, I urge that the sunset provision now in place to end the use of IDB's be erased, at least until the farm credit crisis eases.

I feel compelled to very briefly call to your attention the recent study by Chase Econometrics that estimates that holders of Farm Credit System bonds would lose about $28 billion should there be a default. Banks which hold about half the bonds would lose $14 billion, and there would be additional loan losses as the value of farm real estate plummets. A default by the $70 billion system would be such a shock to the nation's financial system, says Chase, that interest rates would jump by three percentage points and the economy would lose 1½ million jobs. That is the enormity of the problem facing the farm credit system today . . . and I believe such a scenario very clearly points up the crisis and the need to do something significant to keep the wolf from the door of the system and from the door of the American farmer.

Common sense and understanding is what's called for in the case of the American farmer. Common sense about the kinds of help he needs and the level of understanding portrayed nearly a hundred year ago when William Jennings Bryan surveyed the importance of the American farmer to this country's well-being. In his famous Cross of Gold Speech before the National Democratic Party's 1896 convention, Bryan said: "Burn down your cities and leave our farms and the cities will spring up again as if by magic . . . but burn down the farms and grass will grow in the streets of every city in this nation."

Thank you for this opportunity to express these sentiments on behalf of the Kentucky Farmer and may these proceedings result in something very positive in terms of those farmers' ability to survive these toughest of economic times.

Chairman HUBBARD. Thank you, Dave Boswell. I trust you can tell that we have a very informed, outstanding and progressive commissioner of agriculture in western Kentucky, who is from Daviess County, in the person of Dave Boswell.

We thank you for being here and glad you can stay a while.

Mr. BOSWELL. I had kind of a rocky ride in, too. I apologize for being late.

Chairman HUBBARD. State Representative Butch Burnette, you are the chairman of this task force. We heard you earlier and your testimony is in the record. But Congressman Parris did not get to hear you. How about 2 to 3 minutes only from each of you at this point, thinking of the many witnesses who we have here who have come from Henderson, from Russellville and other places to testify. Would you in 2 or 3 minutes capsulize your earlier comments for Congressman Parris?

Mr. BURNETTE. Very quickly. Congressman Parris, we are glad to have you in western Kentucky.

Mr. PARRIS. Thank you.

Mr. BURNETTE. It is very good to meet you. Let me say that I have a great deal of respect for our Commissioner of Agriculture David Boswell. I ran against David last time and chased him from one end of this State to the other. He barely beat me but I will tell you one thing—he is a good commissioner of agriculture. He works very well with us and has really pushed to try to help agriculture.

Let me say this very quickly—there are several things that we pointed out, and I will try to summarize what I was saying. First of all, something that David pointed out was the fact that our farmers were encouraged to sell grain and to push down their fence rows. They went out and borrowed a lot more money. They were encouraged to do this at a time when they thought that we were going to push and sell grain overseas. Then 14 embargoes were placed upon our farmers and our export markets went down. As a result, so did our crop prices go down. At about the same time money was getting tight, and Congress kept borrowing a lot of money. As you know interest rates went to 18 percent, and that broke the backs of many farmers.

We in the Kentucky General Assembly formed this Kentucky Credit Task Force because we wanted to look at the problems. The problems that exist have been, No. 1, the fact that we have low grain prices at this time, and low prices for dairy and for livestock. Farmers are hurting at this time not only because of those things but also because of this farm credit crunch. We have taken a look at the farm credit situation. Our banks are trying to pick up the load from the Farm Credit System, which has carried about 35 percent of that load of the years, and it has been very difficult for them to do that. They have done a very good job in trying to do that, but our Farm Credit System certainly has felt the pinch. We took an inside look at our Farm Credit System. We had Ray Schlader, who is the head of the Farm Credit Bank in Louisville, KY, before our committee. At that meeting, just 1 week before he went to Washington, he told us that the Farm Credit System was not in trouble. The very next week he went to Washington, along with Mr. Don Wilkinson, and said they were in trouble.

Foreclosure problems have been very bad in western Kentucky. Foreclosure is one of the things that is really hurting our good farmers now, and believe me, these are farmers who are productive. The farmers who are hurting now are the ones who have really been the most productive. The reason they are hurting is because you start selling a lot of land in an area and what happens? The land prices go down, and they lose their borrowing power. You can make money farming and actually lose money on paper. And that is what they are doing. The Farm Credit System is charging over 13 percent interest. They cannot afford to pay that. Farm prices are too low to pay 13 percent interest.

What we recommend to do is, with the bailout of the Farm Credit System, is that if you bail them out, we must make provisions where the farmers will get part of it in return for cheaper interest rates. You can bail them out at $6 billion. Five years from now, if you charge them 13-percent interest and the farm situation is the same, you are going to have more problems than ever before. So what we ask Congress to do is to push for lowering these interest rates. That would help the farmers more than anything else.

Another thing, as Commissioner Boswell pointed out, and David and I worked on this bill for 6 years, along with Senator Pat McCuiston and Jim Bruce. We finally passed an agri-bonding bill that we thought we could use to loan money through our banks at a lot cheaper interest. But when we passed the bill in 1984, the Deficit Reduction Act went into effect, and it took agriculture out of revenue bonding. We would like to see agriculture put back into bonding. If you will do that, we can loan money to our farmers through our local banks, and we will even be willing to go with the PCA's to loan money, the Federal land banks to help them get cheaper interest rates through this agri-bonding. You need to remove this stipulation that Congress placed on us.

The Farmers Home Administration is one more thing I would like to point out. You are moving in the direction of guaranteed loans with the Farmers Home Administration. I think they have made only 85 of them in the State of Kentucky. I do not have the exact figures, but that is close. The banks have been very reluctant to go with the guaranteed loans simply because of the regulations, the redtape and all the paperwork.

Now, if you are going to push through FHA with guaranteed loans, that is fine with us. But we think we need to start working with the bankers a little closer and with the PCA's in order to remove a lot of the regulations and redtape where the banker can move in the direction of guaranteed loans if you want to loan money. I do not think that the guaranteed loan program is going to work unless you do. We had Kendell Seaton testify before us, who is the head of Farmers Home Administration in Kentucky. Kendell is a very good friend of mine, and he is a fine gentleman. He has really tried hard, as Representative Bruce will tell you, to lend this money to farmers at a lower interest rate and keep them in business.

Chairman HUBBARD. Kendell Seaton is the State director of the Farmers Home Administration.

Mr. BURNETTE. And that is about the meat of what I, in my 2 or 3 minutes, wanted to say.

Mr. HUBBARD. Earlier did you suggest, Representative Burnette, a moratorium on farm loan foreclosures?

Mr. BURNETTE. Yes, sir. I feel like we are trying to address that in Kentucky. We have legislation that we are studying. We feel like there should be because, again as I pointed out earlier, every time you foreclose on a farm, then his neighbor's land becomes worth just a little bit less. And what has happened is that he has lost his borrowing power. His land might have been worth $1,000 an acre 5 years ago. Today it is only worth $500. It depends on the area. Land prices in western Kentucky have gone down 60 percent in the last 2 or 3 years. We encourage some type of moratorium on foreclosures to keep this land off the market or let the farmers exist so that their land prices stay up. If not, what you are going to do is to break all the productive farmers.

In closing, I would like to say that the small family farm is the backbone of this Nation. If you take a look at what you have eaten, it has cost you about 15 percent of your budget to eat. You have eaten pretty well. If you go to Russia, it costs around 40 percent, in India it costs around 70 percent, and in China, it costs about 60 or 70 percent. I think our farmers have been the most productive people in the world. Yes, they have overproduced; that is one of our problems. We have to address the surplus problem. We have to address it either with some type of controls or let us move this grain somewhere. But we have to address it. But farmers have fed the public as cheaply as any nation in the world, and that is why we have been so productive. As David pointed out, farming is the backbone of this Nation. Why? Because you can buy TV's and cars and you can go out here and do all these other things, like buy houses and things, simply because your food price is cheap. We think that if things continue, and we do not protect our small family farmer, in 10 years you will see the highest food prices you have ever seen in this Nation. And then there will be groans. We feel like we have to do something to keep small family farms in business. Thank you, Congressman Hubbard, for allowing me to speak on behalf of our committee.

Chairman **Hubbard**. Thank you, Ward "Butch" Burnette, State representative. We will now call on the Republican floor leader of the Kentucky House of Representatives, Richard Turner, for, if he would, a 2- or 3-minute summation of his earlier remarks.

Mr. **Turner**. Congressman Hubbard, Congressman Parris, I operate a 500-acre general farming operation, basically a dairy operation. I think my prior comments were that I feel that we are psychologically whipped as much as anything. We have been told to produce, and we produced. We cannot move what we are producing. We entered into contracts for expansion and so on. We find our notes that we started off at 8½ percent going to, back about 6 years ago, going up to 20 percent, which destroyed us.

The grain embargoes hurt us. We felt that we had a good-faith contract, then the embargoes forced the grain to back up on us in this area of the State and, in some areas of my district, caused farmers to fail.

Most of the Government programs that I can cite have not addressed the problem or given aid to the farmer who is a professional farmer and has the ability to farm. Some of the figures we have in agriculture, no doubt about it, have come about by people who thought they wanted to be farmers getting into farming and got into it too big. There is no doubt about that. But that was not necessarily the fault of the farmer as much as it was the lending agencies who were receptive to his plea of letting him do this. They over-sold. Again, this has re-occurred all over the area. These people—the lending agencies, PCA's, Federal land banks—these agencies actually went out and sold people on the idea of expanding. If you had a tractor that was doing the job, they would try to get you to get a bigger one. The result was over-sell.

Keep in mind all this time that many farmers are not astute watchers of markets and so on. Some of them are, and some of them are not. Some of them produce—that is what they know how to do. They took these good-faith agreements with these lending agencies. It was going to be this way forever. So we got into trouble. Land values went from $100 to $1,000 and, in some areas of Illinois where my wife's people farm, $4,000 an acre. That's Unbelievable! All of a sudden, we found that with the market moving in the wrong direction and a couple grain embargoes, we were in the doldrums.

Tobacco farming. We poor tobacco people have been beaten over the head. In fact, this morning again our Surgeon General, dressed as a hippy as far as I am concerned, with a beard, was cussing tobacco. And we are paying his salary. You know, he would not be very welcome in this area of the State, or in my area either, especially because we have over 48,000 tobacco farmers in the fifth district alone, Hal Rogers' district.

We would like to see some consideration given to people who can manage money and keep this thing going, as much as anything. That does not say you preclude or shut out everybody else. But when you start destroying your productive sector, you're in trouble. We have done that, I have seen it happen not only in some businesses but in agriculture. We are going to have some real problems down the road. I do not speak without some knowledge. I have managed a $48 million dairy business. I have been a national sales manager for my company. I have served on the Wisconsin Cheese Exchange that sets the milk marketing in this country. I have operated for a number of years, successfully, and I might add I have not inherited one red cent. I dug it out of the hills, my 500 acre operation. I do not want any help from anybody. I just want a fair shot in the marketplace. We have not been given that. Our very agencies that the taxpayers' money has helped to subsidize, these lending agencies, have not been responsive to the plight of the average farmer out here, and I sincerely believe that.

We have hired basically young people out of college, many of them did not even come from farm backgrounds and did not understand what they were talking about. I am talking about the nuts and the bolts people who make this big machine out here run. We need to have somebody who can relate. And that hopefully is bankers. One of the reasons the banks have done as good a job is that they have been more discrete and they have known who had the ability to make these things work. Some banks have loaned money. Good solid bankers have continued to make good loans.

Chairman HUBBARD. Thank you very much.

Mr. TURNER. Thank you, sir.

Chairman HUBBARD. Representative Turner. And now we will call on the dean of the house, 23-year State representative Jim Bruce for 2 or 3 minutes of summation, if he would.

Mr. BRUCE. You know I am always very short, Congressman. We are glad to have you in Kentucky. But I would like to say one thing before I start. These two Republicans could not run in my area, because they are probably too liberal. We are very conservative down here. I want you to know that.

Mr. PARRIS. Congratulations.

Mr. BRUCE. Well, I would like to say this about the Farm Credit System. We have criticized the Federal land bank, and we have pointed out a lot of things they have done wrong. I think everybody will agree to that, but that does not help the farmer, and identify their mistakes.

Let me just go back. The Federal land bank was created and subsidized a few years ago for reduced lending at 2 to 3 percent below anyone else. The $6 billion you put in there is really going to only help the bond-holders. I do not really see how it is going to help the farmer. The next time you have to put any funding in I would love to see that it goes to help the farmer. One thing that Butch, Representative Butch Burnette brought out—and if you all would consider this—is that you make agriculture tax-free bonds to the State for agriculture purposes and to the farm lending institutions for agriculture purposes, I think you could lower the interest rate a lot and help the farmer survive this economic depression that he is in now. And I would like to make that as a positive suggestion to look at somewhere down the line, Congressman.

And before I end I would like to say this to the people here. I am real proud of Congress for passing the farm bill. I think it does show that you have a great interest in farming. Congressman Hubbard was helpful in passing that bill, I think he is to be congratulated. It is probably not perfect, but we do not pass a lot of things in the State legislature that are perfect. But we try hard, and I am sure you did, Congressman. I want to congratulate you for that and tell you I personally and the people in my district certainly appreciate it.

Chairman HUBBARD. Thank you very much State Representative Jim Bruce. It is a fact that Congress did try to pass the best farm bill we could. We have increased the amount of money for farm programs, when in fact we should be decreasing across the board in order to bring some type of solution to this increasing Federal deficit and the national debt which is now $2.1 trillion.

State Representative Tommy Todd.

Mr. TODD. I will not try to follow my cohort over here, Mr. Turner, with all the things he said, but reduce them to three items. First, I am glad to be here, as I said earlier. I am real proud to see Mr. Parris here because he had to come a lot farther and coming into this Democratic neighborhood, well he has a lot of good nerve. I am glad to see him here.

I would say that of all the mistakes that have been made through the years and by a lot of people toward agriculture, there are three things that I believe would help us. And, of course in the immediate future would be to lower interest rates for the farmer. I am a farmer and construction man and am even foolish enough to be in the farm implement dealership at this time. But I think in the short run, lower interest would help the people out of their crises somewhat. But in the long run, we need markets and we need lower production costs.

You do not hear much said about lower production costs. But I think that when I look at the population of the country and we say that agriculture makes up so much of it, agricultural workers along with a lot of others in the society are at the bottom of the wage earners. The more that the people make at the top—those who have top jobs, such as in post offices or somewhere else—well every time they get an increase in salaries it further depresses agriculture. I think this is true, because the bottom line is the consumer pays along the way, whether he is an agriculture man or construction worker or something else. So production costs are one thing. I do not believe that as a nation we can continue to pay people, if it is me or somebody else, more and more for doing the same job than they did yesterday; when people at the bottom of the rung are getting very little more or even less than we are getting today for doing the same job or maybe a better job, as agriculture has done. I think right there is a very important part in the overall system of our Nation. The people who have gotten better jobs continue to get 5 percent more or whatever, while the people at the bottom get 2 percent less.

Thank you again. I am proud to be here.

Chairman **Hubbard**. Thank you very much, Tommy Todd. At this point, we hope you can stay and benefit along with Congressman Parris, Agriculture Commissioner David Boswell, and me from the testimony of these people here; So that the other witnesses will know their turn is near, let me ask the four distinguished State representatives whom we appreciate so much, if they would trade seats with James P. Esche of Henderson; Thomas Larry Wilson of Arlington; Eva Watson, a farmer and the wife of a farmer from Princeton, KY; and Warren Owens, the county judge executive elect of Carlisle County. Would you all take the seats there at the front at this point?

Thomas Larry Wilson; James P. Esche; Warren Owens; and Eva Watson.

We hope that each of you can stay.

Mr. **Parris**. Mr. Chairman.

Chairman **Hubbard**. Yes.

Mr. **Parris**. I wonder if at this stage in the proceedings it would be appropriate for me to take a couple of minutes just to have a couple of comments. I do not want to interrupt the flow of the testimony. But if that would be appropriate?

Chairman **Hubbard**. It would be very appropriate.

Mr. **Parris**. Fine. I will be extremely brief. I just wanted to make a couple of comments. I am not a great expert in farming or farm credit. I own a little farm outside of Washington, in northern Virginia. I run a few black angus and do some things like that. I do not crop. But John Warner, who is Elizabeth Taylor's husband, you may have heard of her, is a neighbor of mine and I was intrigued by I think Mr. Turner who was talking about the value of property. We have some pretty high price property up around Middleburg and places like that. They grow horses on their's, most of them do. But in the area that I specifically represent, I have about 700,000 constituents right in an urban area. That is why I own a farm, so I can get out in the country and get away from all that. But we sell acreage by the foot. And it costs—if I could find a piece of ground in my district that I could buy for less than $100 a square foot, I would buy all that I could find. Now that is serious money. You start spending a half a million dollars for an acre of ground, that is a lot of money. But the reason is that it is productive, and that is the basic problem that we are here to address.

I bring with me from Washington no great pearls of wisdom. Perhaps a little information that I share with you in just a sentence or two. But I was interested in Mr. Turner's comments. I served as the floor leader in the Virginia General Assembly, as a Republican, as you know.

Which brings me to the comments I want to make about your chairman. Carroll and I have a very close working relationship. I hold him in the highest possible regard. I congratulate the judgment of the people in this district, Democrat or Republican, to send him there. You should be proud of the job that he is doing. We have a serious responsibility.

This is, as you know, the Subcommittee on General Oversight and Investigations of the House Banking, Finance and Urban Affairs Committee. We are charged with the responsibility of supervising, if you will, the conduct of the business of all of the nationally chartered financial institutions in this Nation. Now that is kind of an enormous responsibility when you stop and think about it. One gentleman mentioned that we ought to have a moratorium on bank foreclosures and we will get into that in the committee. We have jurisdiction over the agricultural bank problem, which, as you know, has $50 billion in farm credit right now. We have just about all we can pray over. But somebody has got to pray over it. And this gentleman and myself, to some degree, have some of that responsibility. It is a great privilege for me and I know he feels the same, to serve in the Congress. But it also is responsible for creating a great deal of the gray hairs that I am carrying around with me.

So let me just share this with you and I think it is correct, although as I have indicated earlier in my remarks, we recessed about 1 a.m. or there thereabouts last night. I was told, I was not present, but I was told before I left the Capitol last night that the President had indeed signed the farm bill and it is now the law of the land. He also signed the legislation, I've forgotten the number of it, H.R. 3972 I think it was, established the Farm Credit System provisions. So that that organization had now been reorganized and additional capitalization, direct Federal subsidy, will be considered if the System needs it as they are continuing to be monitored by other regulatory agencies. So there is progress being made on this problem. It is not perfect. And many, many problems remain.

I was interested in—I glanced as he spoke, I glanced through Commissioner Boswell's full statement and he deals extensively in those remarks, for which I congratulate him, they are excellent, on the responsibility to save the Farm Credit System. I have an old friend of mine who says the first recipe to farm well is to be rich. That is all you have to do to be a good farmer, just have a lot of money in the bank from doing something else. I heard another story I will share with you, Mr. Boswell. It is about a guy who wrote to a catalog house and he says, "Please send me one of your gasoline engines. I saw it in the catalog page 700, and if the engine is any good, I will send you a check." He got a letter back from the catalog folks and they said, "Please send a check. If it is any good, I will send you the engine." So the question is, which is the chicken and which is the egg. I think you gentlemen and ladies, I am sure have your finger right on some, if not all, of the problem.

The, perhaps unrealistic, expectations in the 1970's that resulted in a dramatic increase in the value of properties, et cetera, as somebody called it, "a spending binge", to buy additional equipment, bigger, better, everything is going up, the markets are endless, the international depression will not occur and we will not have a farm embargo and we will all get rich; all we have to do is farm another 500 acres or 500 more or whatever. Well, some of us have found that perhaps that is unrealistic expectations. The question is now, what do we do about it?

We cannot assess the blame simply against the persons who are directly engaged in agricultural pursuits every day. The gentlemen from the banks, and that as you know, the name of this committee is the Banking, Finance and Urban Affairs Committee. Banking and financial institutions generally are at the root of the problem. What are we going to do about the extensions of credit not just in the agricultural industry but, as you know, in other areas. We have the International Monetary Fund, the World Bank and all the others that Carroll and I wrestle with every day.

We passed, I might tell you at midnight last night, a continuing resolution, $387 billion for the balance of this year, which is just a small portion. We passed the other $300 billion in the Defense budget earlier. So when you spend $1 trillion a year, that is an awful lot of money.

Now I will close with this, Mr. Chairman. I did not mean to take too much time here. You know how much $1 trillion is? Maybe you can relate to this. Do you know how long a trillion seconds are? A trillion seconds is 1,676 or thereabouts centuries. That is how many a trillion seconds is—is 1,600 centuries. We are talking about the dinosaur times. We owe $2,100,000,000,000 as a national debt. Now how long can we continue to do that? Yet last night we got all hung up on funding the Superfund. At 1 a.m. in the morning the question was whether we put roughly $12 billion in the Superfund cleanup effort through a value-added tax, a brandnew system of taxation, or whether we provide it in a different way on assessment of those who provided the pollution about which we are worried. There is no end to problems in this Nation. But the thing that we have to understand and appreciate is this is still, after all, the most magnificant Nation on the planet. Your industry has its problems at the moment, but it will recover. This Nation has an unparallelled future for all of us. The thing we have got to do, as we have always done in this country, is just put our shoulder to the wheel and try to solve the problems the best way we can and we will be fine.

I am delighted to be here with you today, and I appreciate very much your giving us the opportunity to have your thoughts. You may not believe this, but it is absolutely true, I find that the thing that assists me as much as anything else I do in wrestling with some of these problems is to have the opportunity to come home, my home or yours, and just talk to people that know more about them than we do. It is just that simple. We cannot be experts on everything and we are not.

So when we get the benefit of having the folks who work with the problem every day tell us what they think the answers are, we come closer to the right solution. So I am delighted to be here and I appreciate you giving me that opportunity. Thank you.

Chairman HUBBARD. We certainly appreciate your being here, and it is true to this Member of Congress also that I learn from what I hear today because I, too, have not had a farming background. But it is helpful to hear from you who do have.

Congressman Parris mentioned that Senator John Warner of Virginia and he are neighbors around Middleburg, VA. Is it not? You have farms in that area? He was incorrect when he said that Senator Warner is married to Elizabeth Taylor. I believe they have separated and departed ways.

Mr. PARRIS. I tried to get her to run away with me but she would not do it.

Chairman HUBBARD. The story goes in Washington that, when Senator Warner was marrying Elizabeth Taylor, he had a news conference shortly after their wedding and they were about ready to fly off on a honeymoon. This was Elizabeth Taylor's eighth marriage and Senator Warner said that as he prepared to leave for the honeymoon, he knew what he wanted to do. He knew what he was supposed to do, but it would be difficult to make it interesting.

We will now call on first Jim Esche and then Eva Watson. Jim Esche, as I think of soybeans and soybean farmers, I must admit this Henderson, KY, farmer is the one I think of first. Give us some information about your background in the soybean association of the country.

STATEMENT OF JAMES P. ESCHE, HENDERSON, KY

Mr. Esche. In 1970 a representative of the American Soybean Association, which is merely what the name implies—the National Association of Soybean Growers—came into Kentucky and suggested that we organize a State chapter of soybean growers.

There were about 30 people who met at Madisonville. They all decided that we should form a soybean association. They elected me president of the association. I went out of the room thinking I had just moved into the State, had not lived here too long and did not know very many people. I did not know what to do. But there was an old gentleman there who said, "Jim, do not worry about it, we will make it." We organized the Kentucky Soybean Association, got 200 members and became affiliated with the National Association in August 1970.

In 1975 we passed a one-half cent checkoff program where one-half cent per bushel would be taken from each soybean check. That money went to the college of agriculture, half of it for research, half of it went to the American Soybean Association for market development work overseas. In that 10-year period since 1975 we have sent $1,400,000—we have collected $1,400,000 and sent half of it to the university and half of it for market development overseas.

So that is briefly the history of the Kentucky Soybean Association. I am no longer president of it. I no longer represent Kentucky on the national board, but I did until this past August.

That is briefly the history of the Kentucky Soybean Association. I guess I got a lot of credit. I had an awful lot of good help. I had a lot of people throughout the State who helped me with a lot of things. A lot of things happened that made Jim Esche look good, but it was only because of the support that I had from other people.

I have enjoyed the past 15 years. They have been very rewarding. I have traveled to several places. I have been to Europe five times; to Brazil into the soybean growing areas there; to Mexico twice; and to Columbia, South America. I have also had the good fortune of meeting with some national government representatives in some of the foreign countries. I have been to Poland, where I spent a week there, meeting with some of the government people. I met with the people who decide whether we will buy soybeans, seeds or something else.

It has been a privilege and an honor to have served the people of Kentucky, and it has certainly been a rewarding 15 years of my life.

[The prepared statement of Mr. Esche follows:]

PREPARED STATEMENT OF JAMES P. ESCHE, HENDERSON COUNTY KENTUCKY FARMER

Mr. Chairman and Members of the Subcommittee on General Oversight and Investigations of the House Banking Committee, my name is James Esche of Henderson, Kentucky. I am a full time farmer, fifty nine years of age, operating a 3,000 acre farm in partnership with a thirty-six year-old son.

I wish to thank you for the opportunity to appear before your subcommittee and present my views and suggestions on the agriculture credit problems facing borrowers and lenders in the United States.

I was born and raised on a farm. I farmed with my father, spent sixteen months in the Service, worked six weeks at a lumber mill during the winter of 1946-47, drawing the only paychecks I have receive in my life. I was married and began my own farming operation in 1949, started farming with my father-in-law in 1950, and purchased his portion of the operation in 1965 upon his retirement. I farmed alone from 1965 until my son's graduation from the University of Kentucky as an agronomy major in 1972, at which time we started farming together.

During the 1960-70 period, I had been able to purchase five farms with Federal Land Bank loans and maintain a very good debt to asset ratio.

In 1979, I felt that I could possibly buy another farm and discussed the matter with my local Federal Land Bank representative. At the time, there was a 500 acre farm for sale near my operation, and it was suggested by the Federal Land Bank employee that I buy that particular farm. My reply was, "I don't feel that I should extend myself to that extent and also that it is not the most productive land." His response was, "Go ahead and make this purchase because the marginal land appreciates in value just as much as the better land, and you could sell it in the future at a profit when another farm becomes available." The employee, on two later occasions, again approached me to go ahead and purchase this farm. This was in the early fall of 1979.

In December of 1979, another farmer and I decided to purchase the farm together. I discussed this matter with two commercial bankers and they both agreed that this transaction should not jeopardize my financial position and recommended that my partner and I proceed with this endeavor. The purchase price was $1,040,000 (520 acres at $2000 per acre).

Everyone knows about the bad crop years in 1980 and 1983 and the reduction in commodity prices. Needless to say, payments on this farm became a burden.

During the year 1983, I was in conversation with a Federal Land Bank employee and he mentioned the fact that my financial picture had deteriorated. I reminded him of the fact that he had encouraged me to buy the entire farm three years earlier and that I had only purchased half of it. I also reminded him that I had done nothing foolish and had no control over the bad crop years and the changes in the agriculture economy. We remained friends and are to this day.

I would like at this time to state that I am not trying to say that someone else is to blame for my unfortunate financial endeavor. This is a personal experience that I have had. I do not have to relate to you a story that I have heard.

My father told me very early in life that if you buy something on credit you have pledged everything you own for repayment.

In the spring of 1985, my partner and I decided that it would be best if we sold this farm at auction, as a start toward reducing obligations. The sale price was $495,000 (purchase price was $1,040,000). After the sale, the Federal Land Bank representative told me that he had had trouble keeping the Louisville bank off my back. (The same people who had encouraged me four and a half years earlier to buy the whole farm.)

In my conversations through the years with the employees of the Federal Land Bank, we have discussed the purchase and sale of the stock required when a loan is made. At one time, I was informed that stock could only be redeemed with full payment of the loan. In discussing the possible sale of this farm about a year ago, the redemption of stock was again mentioned and I was informed that at that time, the policy was that stock redemption was proportional to principal reduction, which seemed logical to me. After applying the proceeds of the farm sale to the principal, I asked about a stock redemption. The reply I got was, "Since you asked, I am supposed to let you make a written application for the stock redemption. Had you not asked, I was instructed to not mention the redemption." This statement made me question the credibility of the organization I was dealing with.

As a very young man, my father stressed on many occasions that if you buy land the Federal Land Bank is the place to borrow the money. My experience with the Federal Land Bank was very good until the agricultural financial crisis.

I have had very little experience with Production Credit, but would like at this time to relate some experiences of a close friend and a brother.

In a recent conversation with a fellow farmer in Henderson County, Mr. James McConathy, he gave me permission to present you with his experience with the Production Credit Association.

Mr. McConathy started doing business with Production Credit in 1948 and has been a patron every year since that time. He at this time has approximately $40,000 worth of PCA stock. There is talk of confiscating all the stock that Federal Land Bank and PCA have outstanding. Their present interest rate is 13¼ versus 10½ to 11¼% depending on the commercial bank you are dealing with. Mr. McConathy has mixed emotions about whether he should remain a loyal member of the Farm Credit System or go to a private lending institution.

I have a brother who in 1979 had a net worth as a farmer of $1,000,000 and taxable income of $100,000. With the very bad crop year in 1980 and a reduction in commodity prices in 1981 and 1982, he developed some financial problems. Production Credit Association evaluated his situation, informed him that with their guidance and his cooperation, they would give him five years to work out of his situation. One year later they informed him that his assets would have to be sold, and they were.

Many farm borrowers in my area as well as many other areas are leaving the Farm Credit System. Naturally, these are the less extended borrowers, thus leaving the system with more problems.

A representative of a major insurance company has made several loans in this county. Their interest rates very but are in the 10 to 11% range. I am personally acquainted with a man who for years made loans on farm real estate for an insurance company. He retired in the last five years and says he sure is glad that he did because some of his fellow workers are now managing farms that his company made loans on. This makes me wonder whether insurance company loans are the answer.

If the Farm Credit System should fail and all farm loans made by the system should be called at one time, I feel that this would have a devastating effect on the financial system in the United States. It is very important that the Farm Credit System survives.

I am not one to run to the government for handouts every time there is a problem. My records will show that I have not been involved in very many government programs in agriculture, but in this case I feel that the problem is so large and so important to the welfare and economy of the nation as a whole, that it is time for government action.

I feel that the Federal Government has contributed to the farm financial crisis. We have had three embargos on the export of agricultural products in the past twelve years. I represented Kentucky on the Board of Directors of the American Soybean Association (a national association of soybean growers) for fifteen years. In that period of time, I made five trips to Europe and visited three South American countries, all in the interest of soybeans. During these trips, I had many opportunities to visit with representatives of foreign governments and commercial establishments about their usage of U.S. soybeans. We were constantly reminded that we were not a reliable source of beans because of U.S. government actions, and that when possible, they would make their purchases elsewhere.

In the past year there have been times when soybeans from the U.S. farms were selling in the $5.00 to $5.50 range and were costing foreign buyers $14 per bushel. This was caused by the high value of the American dollar. I am not well informed on the reasons for the value of the dollar, but I am confident that the Federal Government, in some form, has a lot of influence on the rate set.

It is very difficult for Farm Credit System borrowers to understand why at a time when there are many foreclosures by the system, that at the same time FmHA has been ordered by their superiors in Washington to stop all foreclosures. It is a general opinion that the borrowers from the Farm Credit System are producers and for the most part, better business people and better credit risks than FmHA borrowers. But Farm Credit System borrowers are being sold out because of orders from Washington, while Washington says do not sell out the FmHA borrowers.

I feel that something should be done to assure the continuity of the Farm Credit System. I feel that rules and guidelines should be set up and followed. The inconsistencies that we have witnessed in the past five years will cause fears and distrust for years to come. But these problems can be overcome with the passing of time and with some assurance that the system is working for farmers and not just selling out farmers as a means of survival of the Farm Credit System and jobs for the employees of the System. It would be a waste of time, money, and effort for the federal government to provide a means for the Farm Credit System to survive if something isn't done to allow agriculture to survive also.

After all the criticism, I would like to make some suggestions. During the depression of the thirties, a local bank foreclosed on and took possession of forty plus farms. After taking possession of the farms, they began to wonder what to do with them. The decision was made to rent the farms to the previous owners, giving them a chance to recover their "lost" farms and also helping the bank service. The bank service and in most instances the farmers recovered financially, and everyone was better off in the end. I know of an instance in my county this past year of a man who was delinquent on his farm payments to the Federal Land Bank. He deeded the farm to the Land Bank and now is renting the farm from them. It is working.

I know of another instance of my county where the farmer was delinquent. The Land Bank filed a foreclosure suit, sold the farm at auction, a bid was made by an individual, the Land Bank representative made a higher bid and the bidding stopped. The Land Bank has the deed to the farm. The former owner has filed for bankruptcy. Which situation do you think is better for all concerned?

With the present day commodity prices and net farm income, it is almost impossible for most farmers to survive with the debts incurred during the inflated times. Sure, it would be very difficult to convince the urban congressman that a bail out of agriculture is necessary, but the question could be asked, "How much has been spent over the years to assist problems in the cities?" If American agriculture does not survive, what would the cost of imported food be? Would you want to depend on foreign countries for food, like we do for automobiles, oil, and many other items that we use from day to day?

I have spoken about the farmer with financial problems. What about the man who is not deeply in debt? I spoke to a farm supplier recently that says he is having problems collecting from farmers who have no real estate debts.

Another thing that would assist in the high cost of borrowed money, which is one of the major problems in agriculture financing, would be to make interest on all agricultural loans tax free as are industrial revenue bonds. After all, agriculture is an industry. This should include all production and real estate loans to full-time farmers and bonds issued by the procurement division of the Farm Credit System. This would reduce the interest income to the IRS, but if farmers could make some money, they in turn would again pay some taxes. In a recent conversation with a farmer from Oklahoma, the farm financial problem became the topic of conversation. The gentleman made the statement that if his interest rate had been four percentage points lower, he would have shown a profit.

In the November-December issue of Economic Perspectives published by the Federal Reserve Bank of Chicago, there are several articles about the farm financial problems, but not too many solutions.

I have read articles about write downs of principal and interest on agriculture debts at commercial banks and the Farm Credit System, with the write downs absorbed by the Federal Government. The programs I have mentioned and many programs mentioned by others would certainly be helpful, either in part or in combination with tax-free interest on agricultural loans, but I feel that this plan would be of most benefit to farmers and would begin to show results immediately.

I once attended a farm meeting and noticed a man sitting beside me wearing a badge indicating that he represented The Electric Energy Association of New York. I asked him what he was doing at a farm meeting. His reply was, "I have an interest in agriculture - I like to eat." If something isn't done soon to allow agriculture in its present form to survive, what will the cost of food be?

Gentlemen, I thank you for allowing me to present my views on agriculture financial problems.

Chairman HUBBARD. Thank you very much, Jim Esche. We will call on Eva Watson now and the Chair admits an error in not calling first on Charlie Bennett. But we will definitely get to this banker momentarily. But I have already said Eva Watson would be next.

Mrs. WATSON. That is all right, if you want to go ahead.

Chairman HUBBARD. Go ahead. We have not heard from a lady yet and we are glad you are here. A lady farmer from Caldwell County, Princeton, KY, Eva Watson, wife of Charles Watson. Charles, we are glad you are here, too.

STATEMENT OF EVA WATSON, PRINCETON, KY

Mrs. WATSON. Gentlemen, I am Mrs. Charles Watson. My friends call me Eva. I am from Princeton, KY, and I appreciate this opportunity to speak to this subcommittee on the pressing problems and needs of agriculture.

I am not going to give you a lot of facts and figures. But instead, I have decided to give you my personal testimony. My husband, Charles Watson, and I started farming in 1959, after graduating from the University of Kentucky with a degree in agriculture.

We started farming in partnership with his father on the family-owned 550-acre farm. In 1960, we bought three adjoining farms and paid for them in 3 years. In the early 1970's we bought an additional 400-acre farm and financed it through the Federal land bank. In 1980, after land prices had started a decline, we were encouraged by the Federal land bank to buy an additional 1,650-acre farm on which they already had a mortgage. The next 2 years, we had a severe drought, along with very low commodity prices and extremely high increase in interest rates, fuel, fertilizer, maintenance costs and even the Social Security we paid our employees.

With the low commodity prices and the high fixed costs—two factors over which we had no control—it did not take long to lose the equity that we had acquired over the past 20 years. Our farm and our farm plans have always been based on sound financial thinking and reasoning.

In 1978, our Federal land bank and bank interest rates were 8½ percent. Soybeans were selling around $8 per bushel. Corn was selling for $3.25 a bushel, and wheat for $4.50 per bushel. With all information and expertise advice, these prices were expected to be stable or at least show an increase for several years. But due to factors completely out of our control, these figures are not even realistic today. This month, our interest rates are 13½ percent with the Federal land bank and our local bank; and with the closing of the Chicago Board of Trade Market yesterday, our corn prices were $2.47 per bushel; wheat was $3.41 per bushel; soybeans $5.31 and a half; and at times this fall they were even below these prices.

This has left us with no alternative but to reduce a big loss. Now you know the rest of the story.

My family and I have enjoyed farming with all of its adversities. We are not quitters, but with so many real factors against us today, we cannot continue much longer under the present conditions.

I served on the local FHA board for several years; I was chairman of the board. I saw firsthand the severe financial stress of the many farmers in our three county areas. In most cases, these farmers were educated, hard-working people. Their only need was to make a profit, to which they were certainly entitled.

The solution to our farm credit problem, price problem, is simply profit. Agriculture must be profitable. If it were, the Farm Credit System, our local banks, and even our smalltown businesses would not be having financial problems today.

In our hometown of Princeton, we have seen one business after another close due to the agriculture in our county. The U.S. Government is the only one that can handle the agriculture problem. I am going to list a few of the points that need to be in a farm bill program.

No. 1, a large area of our acreage should be set aside in a conservation program. In my home county, there are many acres cultivated to growing crops that should be seeded to permanent grass. In most cases, this ground has been cultivated for financial reasoning, against the farmer's better judgment.

No. 2, we must have a profit support price program with a mandatory production plan. It has been proven by figures released by the USDA that cheap prices do not increase exports. A perfect example is the present situation—low prices, low exports.

No. 3, we must have immediate relief on credit. I realize that credit is not the solution to the present farm problem. However, it must be made available for the immediate future with agriculture to start showing a profit. This credit must be made available in a form of lower interest rates, writedown of present notes. This can only come through our local Farmers Home Administration, as other lending institutions are not capable of administering these financial stresses.

Gentlemen, my family and I do not seek charity, nor do we accept charity. All we are looking for is a chance to make a fair profit for our labors and our investment. When we have no control over the prices of what we buy and no control over the prices of the products we sell and no help from the Secretary of Agriculture, this leads us to only one other place to turn and that is the Congress of the United States to help solve our serious farm crisis problem.

I sincerely thank you for your time, and I hope my time has not been wasted either. I would like to see our grandchildren and our children continue to farm as their forefathers have before them.

[The prepared statement of Mrs. Watson follows:]

PREPARED STATEMENT OF EVA M. WATSON

Gentlemen: I am Eva Watson from Princeton, Kentucky, and I appreciate this opportunity to speak to this subcommittee on the pressing problems and needs of agriculture. I am not going to give you a lot of facts and figures, but instead I have decided to give you my personal testimony.

My husband Charles Watson and I started farming in 1959 after graduating from the University of Kentucky with degrees in agriculture. We started farming in partnership with his father on the family-owned 550 acre farm. In the 1960's we bought three small adjoining farms and paid for them in three years. In the early 1970's we bought an additional 400 acre farm and financed it through the Federal Land Bank. In 1980, after land prices had started to decline, we were encouraged by Federal Land Bank to buy an additional 1650 acre farm on which they already had a mortgage. The next two years we had a severe drought along with very low commodity prices and an extremely high increase in interest rates, fuel, fertilizer, social security paid on employees, and maintenance costs. With low commodity prices and high fixed costs (two factors over which we had no control), it did not take long to lose all our equity that we had acquired over the past twenty years.

Our farm and our farm plans have always been based on sound financial thinking and reasoning. In 1978 our Federal Land Bank and bank interest was 8½ percent. Soybeans were selling for around $8.00 per bushel, corn prices were $3.25 per bushel, and wheat was $4.50 per bushel. With all information and expert advice, these prices were expected to be stable or show an increase for several years. But due to factors completely out of our control, these figures are not even realistic today. This month our interest rates are 13½ percent with Federal Land Bank and our local bank. Corn prices are $2.21 per bushel; wheat, $3.05 per bushel; soybeans, $5.13 per bushel; and at times, they are even below these prices. This has left us with no alternative but to produce a big loss. And now you know the rest of the story.

My family and I have enjoyed farming even with all of its adversities. We are not quitters, but with so many real factors against us today, we can't continue much longer under present conditions. The solution to our farm crisis problem is simply a *profit must!*

Agriculture must be profitable. If it were, the farm credit system, local banks, and most small town businesses would not be having financial trouble today. In our hometown of Princeton, we have seen one business after another close due to the agriculture industry of our country.

The United States Government is the only one that can handle the agriculture problem. I am going to list a few points that need to be in the 1985 farm program:

1. A large number of acres set aside in a conservation program. In my home county, there are many acres cultivated to grow crops that should be seeded to permanent grass, and in most cases, this ground is being cultivated for financial reasons against the farmers' better judgement.

2. We must have a profitable support price program with a mandatory production plan. It has been proven by figures released by the USDA that cheap prices do not increase exports. A perfect example is the present situation: low prices and low exports.

3. We must have immediate relief on credit. I realize that credit is not the solution to the present farm problem; however, it must be made available for the immediate future until agriculture starts showing a profit. This credit must be available in the form of lower interest rates and write-down of present notes. This can only come through our local FmHA as the other lending institutions are not capable of administering these financial services.

Gentlemen, my family and I do not seek charity nor will we accept charity. All we are looking for is a chance to make a fair profit for our labor and investment. When we have no control over the prices of what we buy, no control over the price of the product we sell, and no help from the Secretary of Agriculture, this leads us to only one other place. We must turn to the Congress of the United States to help solve our serious farm crisis problem.

I sincerely thank you for your time and hope my time has not been wasted either. I would like to see our children and grandchildren continue to farm as their forefathers have before them.

Chairman **HUBBARD**. Thank you very much, Eva Watson. We appreciate your excellent testimony, and I know that she is one who writes often and contacts Members of Congress about the need for us to do more to help agriculture.

Charlie Bennett, former president of the Kentucky Independent Bankers Association. We will hear you next.

Mr. **BENNETT**. Thank you.

Chairman **HUBBARD**. What is the name of the committee that you chair?

Mr. **BENNETT**. I am chairman of several committees but basically the Agricultural Finance Authority in Frankfort.

Chairman **HUBBARD**. You are the chairman of the Agriculture Finance Authority in Frankfort?

Mr. **BENNETT**. Right.

Chairman **HUBBARD**. Is Mr. Richard Dickinson, Jr., of Guthrie here?

Would you mind to know that you will be the next witness along with W.L. "Bill" Hale III, and Howard Shaw. All of you will be next, after this particular panel.

Charlie, we will hear you now.

STATEMENT OF CHARLIE BENNETT, CHAIRMAN AND PRESIDENT, THE FARMERS BANK OF HARDINSBURG, KY

Mr. **BENNETT**. Thank you, Mr. Chairman. Congressman Hubbard, Congressman Parris, ladies and gentlemen. My name is Charlie

Bennett. I am from Hardinsburg, KY; chairman and president of the Farmers Bank in Hardinsburg; chairman of the Leitchfield Deposit Bank in Leitchfield, KY; immediate past president of the Independent Community Bankers Association of Kentucky. I am also the director of the Independent Bankers Association of America, a member of its agricultural committee; and chairman of the board of the Kentucky Agriculture Finance Corp. But last and not least, I own and operate with my sons over 500 acres of farmland.

Farm credit problems in Kentucky, as in other States, are mounting to serious proportions and will continue to increase unless the farm economy does a turnaround in the very near future.

In our opinion the only way the farm economy can be turned around is to increase the prices farmers receive for their products. We feel that the critical situation in the farm sectors has been brought on by a number of factors, among which and No. 1 is, high interest rates, rates that we have experienced over the last few years and continue at too high a level; because of deficits that have already been mentioned here today.

High inflation rates are No. 2, and were prevalent during the 1970's and still remain high in some parts of the economy.

No. 3, unrestricted or ill-advised lending and/or borrowing during that particular time.

No. 4, a loss of world market for agricultural products; partly responsible by embargoes and other factors beyond the control of the agricultural sector.

No. 5, providing agricultural expertise to foreign countries to improve their methods of production which puts them in direct competition with American farmers. And I would emphasize something that has already been said, loaning money to those countries at a much, much lower rate of interest than we are able to loan to American farmers.

No. 6, ill-conceived and ill-advised Government programs in agriculture, and I would here just point out the PIK—Payment-in-Kind Program—as an example.

No. 7, lack of understanding of programs relating to agriculture by the populous as a whole.

And, No. 8, perhaps more influential at this particular time is the tremendous decrease in the value of farmland which has seriously eroded the net worth of all farmowners.

Some of the problems contributing to the seriousness of the farm credit situation are a direct result of lending practices by certain agricultural lenders to highly speculative ventures, some of which were not directly related to agriculture. Most of the problems, however, are a direct result of the "go-go" lending practices of many of the lenders during the last 10 years to farmers with little or no attention to cash flow and to repayment schedules.

It is a well-known fact that American farmers profited by the expertise and rapid advancement of technology in agriculture in this country, which has resulted in a smaller percentage of the wage earner's dollar going for food in this country than in any other country in the world.

We have shared our expertise and technology with other countries which are now selling their farm products in this country at prices below our farmers' actual production costs. The fact is that farm prices, prices that are received by farmers for their products, have not increased proportionately with prices paid for the production costs, costs such as equipment, machinery, services, and other necessary costs of production. This has put the American farmer in a terrible cost/price squeeze.

There is no doubt the production capabilities of agriculture in the United States are sufficient to provide food for most of the other countries in the world. However, farmers should not be expected to produce food and fiber to feed not only this Nation but people of other countries at a below break-even point.

We are pleased that the U.S. Congress has directed attention to the Farm Credit System's problems, and that legislation has been initiated that would assist the borrowers of the Farm Credit System.

And, again, I would like to just for a moment emphasize that the bailout is not for the Farm Credit System as such but for its borrowers, because if you provide funds which have been appropriated and apparently that the President has signed into law, this is not, per say to the Farm Credit System, but it is to its borrowers.

We are, as bankers, at this point disappointed that the assistance which has been proposed and is being directed to the borrowers of the Farm Credit System has not been extended to those borrowers who are customers of the private lending institutions, and by those I refer to the insurance companies and commercial banks.

In our opinion, it is just as important that these farmers receive help as it is for the borrowers of the Farm Credit System. We support the idea that the Farm Credit System should be made whole and put on a sound basis to protect its borrowers, but we are interested that the same treatment be given to the borrowers of the private lending institutions.

As indicated in the beginning, we feel that perhaps the most important factor that must be addressed is the low farm prices that farmers receive for their products and services. We have long advocated that no price support system will be successful unless there is strict production control. We have also maintained that target prices cannot be held at a higher level than that which will sustain the most efficient farmers in the business. Farmers must receive a fair price for their products. Given the fact that agriculture is the largest single industry in this country, it would appear that more attention should be given to its problems, particularly as it relates to the overall economy of this country. Perhaps the statement that has been made that says "as agriculture goes, so goes the Nation," still has a great deal of merit at this time. We would all agree that without food and fiber that is produced by our Nation's farmers or with a sharp reduction in the production of food and fiber, this country would be jeopardized in many respects, perhaps most of all the vulnerability of defending its shores against foreign invasion.

Without doubt one of the primary reasons this country has been able to withstand world conflicts in this century is its ability to produce not only on the farm but in its industries as well.

Given the variables farmers face in producing their crops, it is of vital importance that a reasonable amount of foodstuffs be stored to offset the hazards of droughts, floods, and other acts of God beyond the control of the farmers to guarantee enough food for the American people.

Without the food and fiber produced by the farmers, certainly production would stop in all of our factories and the overall economy would be at a complete standstill.

We have heard the comments from persons who are high in this administration saying that there is a certain percentage, perhaps as many as 15 or 20 percent, of the farmers who are marginal and should be allowed to fail. The problem as we see it from this point of view would be that once 20 or so percent are forced out of the business, then there is jeopardy that is placed on another 10 or 15 percent who would also be affected, and of course could bring about a more rapid deterioration of the overall agricultural economy. Which would soon create chaotic conditions that would be impossible to correct in a reasonable amount of time.

We do not believe that farmers should be subsidized beyond that which is provided to the normal populous of this country. We must realize, however, that if 15 or 20 percent of the farmers would be allowed to fail or are forced into failure or bankruptcy, other programs that are costing the taxpayers money would have to be greatly expanded in order to take care of the large number of people who would not be able to find employment and who would be added to the welfare roles of this country.

We believe it is in the best interest of this country not only from the standpoint of national security, but from the standpoint also of protecting the tremendous production capabilities of our industry, that agriculture should be considered in its proper perspective and given whatever assistance necessary to at least give those farmers who have a chance to survive, the opportunity to do so.

This, in our opinion, can only be done by providing assistance to all farm borrowers, regardless of whether they are customers of the Farm Credit System, private lending institutions or commercial banks.

We believe the greatest asset beyond the people themselves is the ability of our agriculture industry to produce food and fiber.

And may I say at this point, Congressman Hubbard, I compliment you for bringing your subcommittee to this area and to Kentucky. Congressman Parris, we certainly appreciate your coming, and I do appreciate the opportunity of being here today and presenting this testimony. Thank you, sirs.

[The prepared statement of Mr. Bennett follows:]

Prepared Statement of Charlie Bennett, Hardinsburg, KY

Mr. Chairman, members of the subcommittee, ladies and gentlemen: my name is Charlie Bennett, I am from Hardinsburg, Kentucky, and Chairman and President of The Farmers Bank; Chairman of the Board of the Leitchfield Deposit Bank of Leitchfield, Kentucky; immediate past president of the Independent Community Bankers of Kentucky; director of the Independent Bankers Association of America, member of its agricultural committee and last but not least, own and operate a farm.

Farm credit problems in Kentucky, as in other states, are mounting to serious proportions and will continue to increase unless the farm economy does a turnaround in the very near future. In our opinion the only way the farm economy can be turned around is to increase the prices farmers receive for their products. We feel that the critical situation in the farm sector has been brought on by a number of factors:

1. High interest rates.
2. High inflation rates that were prevalent during the '70's.
3. Unrestricted or ill-advised lending and/or borrowing during that era.
4. A loss of world market for agriculture products, partly responsible by embargo and other factors beyond the control of the agricultural sector.
5. Providing agricultural expertise to foreign countries to improve their methods of production which puts them in direct competition with American farmers.
6. Ill-conceived and ill-advised Government programs.
7. Lack of understanding of problems relating to agriculture by the populace as a whole.
8. Last, and perhaps most influential, is the tremendous decrease in the value of farmland which has seriously eroded the net worth of all farmowners.

Some of the problems contributing to the seriousness of the farm credit situation are a direct result of lending practices by certain agriculture lenders to highly speculative ventures, some of which were not directly related to agriculture. Most of the problems however, are a direct result of the "go-go" lending practices of many of the lenders during the last ten years to farmers with little or no attention to cash flow and repayment schedules.

It is a well known fact that Americans have profited by the expertise and rapid advancement of technology in agriculture in this country, which has resulted in a smaller percentage of the wage earner's dollar going for food in this country than in any other country in the world. We have shared our expertise and technology with other countries who now are selling their farm products in this country at prices below our farmers' actual production costs. The fact that farm prices, that is prices received by farmers for their products, have not increased proportionally to prices paid for equipment, machinery, services and other necessary costs of producing farm products has put the American farmer in a cost-price squeeze. There is no doubt the production capabilities of agriculture in the United States is sufficient to provide food for most of the other countries in the world. However, farmers should not be expected to produce food and fiber to feed not only this Nation but people of other countries at a below break-even point.

We are pleased that the United States Congress has directed attention to the Farm Credit System's problem and that legislation has been initiated that would assist the Farm Credit System borrowers. We are, as bankers however, at this point extremely disappointed that the assistance which has been proposed and being directed to the borrowers of the Farm Credit System has not extended to those borrowers who are customers or borrowers of the private lending institutions, that is, the insurance companies and commercial banks. In our opinion it is just as important that these farmers receive help as it is for those borrowers of the Farm Credit System. We support the Farm Credit System being made whole and on a sound basis to protect their borrowers, but we are interested in seeing that private lenders' borrowers are also provided the same assistance as provided farm borrowers of the Farm Credit System. We are hoping that assistance to provide the borrowers of commercial banks equal treatment will be considered immediately after the first of the year so that borrowers of private lenders can be afforded the same assistance and opportunities as those borrowers of the Farm Credit System.

As indicated in the beginning we feel that perhaps the most important factor that must be addressed is the problem of low farm prices that farmers receive for their products and services. We have long advocated that no price support system will be successful unless there is strict production control. We have also maintained that target prices cannot be maintained at a higher level than that which will sustain the more efficient farmers in the business. Farmers must receive a fair price for their products.

Given the fact that agriculture is the largest single industry in this country, it would appear that more attention should be given to its problems, particularly as it relates to the overall economy of this country. Perhaps the statement that has been made that says "as agriculture goes so goes the Nation," still has a great deal of merit at this time. We would all agree that without food and fiber that is produced by our Nation's farmers or with a sharp reduction in the production of food and fiber this country would be jeopardized in many respects, perhaps most of all its vulnerability in defending its shores against foreign invasion. Without doubt one of the primary reasons this country has been able to withstand world conflicts in this century is its ability to produce not only on a farm but also in its industry. Given the variables farmers face in producing their crops, it is of vital importance that a reasonable amount of food stuffs be stored to offset the hazards of droughts, floods and other acts of God beyond the control of the farmers to guarantee enough food for the American people. Without the food and fiber produced by the farmers, certainly production would stop in all of the factories and the overall economy would be at a complete standstill.

We have heard the comments from persons who are high in this administration saying that there is a certain percent, perhaps as high as 15 or 20 percent of the farmers, that are marginal and should be allowed to fail or simply go out of business. The problem as we see it from this point of view would be that once 20 or so percent are forced out of business, then there is the jeopardy that is placed on another 10 or 15% that would be affected which could of course being about a more rapid deterioration of their economic condition, soon creating chaotic conditions that would be impossible to correct in a reasonable amount of time. We do not believe that farmers should be subsidized beyond that which is provided to the normal populace of this country. We must realize however that if 15 to 20% of the farmers would be allowed to fail or be forced into failure or bankruptcy, that other programs that are costing the taxpayers money would have to be expanded in order to take care of the large number of people who could not find employment and who would be added to the welfare rolls of this country.

We believe it is in the best interest of this country, not only from the standpoint of national security but from the standpoint also of protecting the tremendous production capabilities of our industries, that agriculture should be considered in its proper perspective and given whatever assistance necessary to at least give those farmers who have a chance to survive the opportunity to do so. This in our opinion can only be done by providing assistance to all farm borrowers regardless of whether they are customers of the Farm Credit System or the private lending institutions or commercial banks. We believe that the greatest asset beyond the people themselves is the ability of our agriculture to produce food and fiber.

Thank you.

Chairman Hubbard. Thank you, Charlie Bennett, for being here from Hardinsburg, KY.

L.M. "Mac" McBride, we go back to you at this point. He was testifying about the time you came in and we cut him off.

Mr. Parris. Sorry about that.

Chairman Hubbard. Well, we are anxious to hear you.

Mr. McBride. Well, that is no problem. Most of this has been covered already, the things to which I had alluded. The only thing that I would like to continue with here is something that has been brought up, and that is the Farm Credit System. Of course, this is the Banking Oversight Subcommittee. And of course, it is my understanding that just recently, at a time when interest rates are beginning to fall and those who have CD's on deposit raised cain because we are paying a little less interest on those CD's. But at this time, the Federal land bank has actually raised their interest rates, as has been brought about, to around 13¼ plus their stock, which runs about 14 percent—at a time when we are lowering our rates. So we are considerably lower right now than they are at our bank. And some of our farm friends are coming back to us. I was just talking about the fact that some of them had left us and gone to the Federal land bank because they were loaning money at a lower rate than we were. And some of them were able to borrow more than they really needed and turn around and loan it back to the Farm Credit System at 1 or 2 percent more than what they borrowed it from, which did not make good sense but that was the way it was.

Some of these customers are coming back to us now because our rates are lower than the Federal land bank and some of them we are able to help with where the collateral is sufficient and they are able to have cash flow, we are able to accommodate them. But some of them were not able to accommodate them because their collateral has decreased in value to such an extent that it will not support the loan and the cash flow cannot service the debt. And of course the Farm Credit System does need to help, and the bill has been passed to help the Farm Credit System in the form of a line of credit or guarantee of some of the debt obligations. But I think that there should be some regulations as to their methods of operation, and certainly some better supervision of their overall system if this is to take place. It is to take place, and Charlie Bennett has already addressed this to a certain extent.

I think that some of this help should go to the farmer/borrower, as Charlie said, who in turn can use the proceeds to pay debt not only to the Farm Credit System but also to the commercial banks which have financed a good portion of the agricultural credit down through the years and still do.

So let us not bail out the Farm Credit System, which has been in direct competition with the commercial banks, and leave the agricultural commercial banks out on the limb. Particularly those that are in the areas of the Midwest where they are not very diversified and depend almost entirely on their agricultural economy.

I have a letter here that I would like to attach to my testimony and present to you to take with you from the American Bankers Association president, Donald T. Senterfitt, and from the president of the Independent Bankers Association of America, B.F. Backlund; to the Committee on Agriculture of the House of Representatives. It addresses this situation. I do not know if you have a copy of that letter, Carroll, or not. But——

Chairman Hubbard. But we would like to have it as a part of the record of this hearing.

Mr. McBride. I will attach it to my testimony and give you a copy of it.

Chairman Hubbard. Please do.

Mr. McBride. Again, I would like to say, Representative Parris, we appreciate your taking the time to come so far to be with us, and we certainly appreciate Congressman Hubbard and the fine job that he does representing us in Washington. Thank you for the opportunity to testify.

[The prepared statement of Mr. McBride with the attached letter to the chairman of the House Committee on Agriculture follow:]

Prepared Statement of L.M. McBride

First of all, I would like to thank Rep. Carroll Hubbard and his House of Banking Subcommittee for coming to Western Kentucky and holding his hearing concerning a matter which is of utmost importance not only to the agricultural lenders of this area, but very, very important to all of the citizens of this area. Not only do the farmers depend upon the farm economy, but so many of our other people who are in business in Western Kentucky depend upon this same agricultural economy and its well-being, and let's face it, the agricultural economy is in a mess, to put it mildly. This has been brought about due to the fact that our agricultural producers simply do not have enough margin between the cost of production and the price they can receive for their products to service debt and make a living. Putting it simply, that margin is just not there today. We know that we have some of the best producers here in West Kentucky that you will find anywhere in the nation. Yet we find that some of these that have a sizable debt to service are on the brink of financial ruin, and of course, some of them have already gone under. In Western Kentucky not nearly as many farms are going under the hammer as in the mid-west, but a lot of them are in serious financial trouble and some of them who do not have a great deal of debt are not receiving ample return on their investment and their net worth is decreasing as land values decrease and margins continue to decrease. Things are getting difficult for many farmers to make financial arrangements to continue farming operations. Farm equipment dealers and other agriculture related businesses are having problems. As the crop prices have been plunging during the past year and profits disappearing, requests are coming from farmers for help from lenders to tide them through these tight times we are having. Farmers are seeking relief from high interest rates, and bank interest rates have been coming down some, but farm credit system rates have been increasing. All of these rates need to come down further. They need lengthening of amortization period to reduce payments and ongoing credit for production, and in some cases, to carry over a portion of the current operating loan. But when profit margins of borrowers in any industries are virtually non-existent, then lending institutions become concerned because they do not know where the money is going to come from to pay these loans. You know, this is money that belongs to depositors, and lending institutions are charged with the responsibility of protecting and taking care of this money. This they must do if they are to stay in business. This creates a problem and this is certainly happening today across rural America as it has in tight economic times before. I have had the opportunity of serving, this makes the third year, on the Advisory Board of the Community Bank Council of The American Bankers Association. As such, I have been able to meet with bankers from all fifty states, and some of the stories that I hear coming from the midwestern states such as Iowa, Nebraska, Kansas and Oklahoma, through the big grain producing area where agriculture is the main economy, there have been some real horror stories. Our situation in this particular area here in Western Kentucky, although bad, is not as bad as in some parts of the country, but we must have a turn-a-round of some kind to allow the farmer to get a fair return on his products and allow him to make a profit on what he produces. It just has to happen or otherwise he is going out of business and someone is going hungry.

Let's take a look at what partially brought about this situation. A few years back the local banks and PCA's provided much more of the agricultural credit that was needed in the various counties. Sure there were other places where a farmer received credit; local merchants, for example, but for his major production loan, the farmer went to the bank and his banker would look over his entire balance sheet and worked with him closely in managing his debt. Then came the 1970's surge in foreign demand for U.S. grains and soybeans, and everybody was scrambling to get money to farms, crowding in to lend the farmers money. This happened in farm regions all over. We saw government-backed lending institutions intent on boosting production and keeping commodity prices cheap, and they pushed a lot of farmers to borrow to create even bigger grain and soybean units and bring new land into production (plant fence row to fence row so to speak) to feed the world and to produce cheaper food. We saw insurance companies, with premium income to be invested, becoming a source of agriculture mortgage money. Service requirements per loan were easy for them. The loans were secured by income-producing real estate and companies pushed hard to boost their lending to farmers because at that time there was only one way farm values were going, and that was up. There seemed to be no other way but up. Immediately after World War II farmland started going up, and I thought farmland was too high when it got to $100 an acre. When it got to $200 an acre I knew it was too high. Yet it kept going up and up and the collateral seemed to be there for a lot of these lending agencies to continue to lend and to continue to push and continue to try to get more production and cause agriculture to grow and produce cheaper food. Farm equipment dealers brought out new lines of machinery and made easier credit arrangements available for purchases. Little or nothing in downpayment if you will recall; first installment after harvest and many an expensive new piece of equipment went off dealer lots and into the fields, and with the combination of big expensive equipment being sold, increasing numbers of big farm units, and with crop prices and profit ranges increasing, this loan category soared. They said "no payment for a whole year," and things like that caused lots of farmers to get heavily in debt on farm equipment. So here we were, essentially three major independent sources for farmer lending, often not paying too close attention to each other's activities and not paying close enough attention to ability to repay from cash flow because all were looking to rising values and equity in land and machinery for security. You see, the problem was that there was just not much coordination between lenders. Now let's look at what the explosion in this longer term debt did to the farmers' need for short term debt and his ability to handle it. Let's look at crop loans—the money a farmer needs to prepare his fields, plant the crop, fertilizer, seed, chemicals and tend the crop through the season and finally harvest it and deliver it to market for sale. The farmer used to set aside some profit from the sale of last year's crop after expenses were paid and in the ground. However, when he had dipped into his savings to *finance equipment* and *land purchases*, and farm operating cost were going up too with the general rate of inflation especially when interest rates persisted in higher ranges, then crop prices sagged and crop loan totals just skyrocketed, often approaching full financing for the entire season. In some instances the crop loan total has been greater than what the farmer could actually get for his products, and he has not had enough income from that particular crop to pay his crop production loan for that year. And while farms were getting bigger, credit needs were growing; by the same token the lending ability of the typical country bank was not keeping pace because the lending limits of the country bank were limited by the regulatory authorities to a certain percent of the capital surplus and undivided profits so these farmers had to go to the Federal Farm Credit System for the larger amounts of money they had to borrow. We in our bank have been able to handle the credit needs of our customers, if they were over our legal lending limit, through participation loans with our larger correspondent bankers. Many of our farm borrowers went to the Federal Land Banks and the PCA's and the Federal Farm Credit System lenders because they could get a cheaper interest rate from them than they could get from the bank because at that particular time, the amount of interest that we were having to pay for money was such that we could not compete with the Federal Land Bank on the interest they were charging. I recall one particular customer of ours with whom we had a loan who was able to go to the Federal Land Bank and borrow money at a lesser interest rate than we had to charge him and then was able to turn around and loan a portion of that money back to the Federal Land Bank at a higher rate than they were lending to their customers (about 1 or 2% higher due to the method they were using to arrive at the interest rates they were charging.) That didn't make good sense but that's the way it was, and I certainly did not blame the customer for taking advantage of that situation. Since that time however, the Federal Farm Credit System has gotten into a financial bind due to the things we have been talking about—the losses sustained by farmers and the losses sustained by the Federal Farm Credit System. It is my understanding that just recently, at a time of falling interest rates, the Federal Land Bank has actually raised their interest rates (they are on an adjustable rate basis) to around 13¾% plus their stock which runs it to about 14% at a time when we have been lowering our rates. So we are considerably lower than they are now, and some of our farm friends are coming back to us to see if we are in the market to make them loans at a lesser rate. Some of them we are able to do, where the collateral is sufficient, and some of them we are not able to accommodate due to the fact that their collateral has decreased in value to such an extent that it will not support the loan and their cash flow can't service the debt. The Farm Credit System looks like it may need help from a federal standpoint, and of course they have approached the Congress about securing help in the form of a line of credit or guarantee of some of the debt obligations. But I think there should be some regulation as to their methods of operation and certainly some better supervision of their overall system if this is to take place. And I think this help should go to the farmer borrower who, in turn, can use the proceeds to pay debt not only to the Farm Credit System but also to the commercial banks which have financed a goodly portion of the agricultural credit down through the years. Let's not bail out the Farm Credit System which has been in direct competition and leave the commercial banks out on the limb.

I have a letter here from the American Bankers Association, President Donald T. Senterfitt and from the President of the Independent Bankers Association of America, B. F. Backlund, to the Committee on Agriculture of the U.S. House of Representatives, and they say as follows:

November 15, 1985

Honorable E. (Kika) de la Garza
Chairman
Committee on Agriculture
U.S. House of Representatives
1301 Longworth House Office Bldg.
Washington, DC 20515

Dear Mr. Chairman:

As you consider the need for legislation to address the problems of the Farm Credit System (FCS), this letter is submitted to you on behalf of the American Bankers Association (ABA) and the Independent Bankers Association of America (IBAA)--the two major trade associations of the U.S. banking industry. Both of our Associations strongly object to the efforts being made by the FCS to ramrod financial assistance legislation through Congress in the very limited time left in the First Session. While the FCS and its component banks undoubtedly face significant economic problems, we do not believe that the problems faced by FCS are materially different from the problems confronting the thousands of agricultural commercial banks represented by our two Associations.

We recommend that your Committee approach the problems of the Farm Credit System in three parts. First, the immediate attention of the Committee should be focused on the Farm Credit Administration (FCA), which should be reconstituted by statute as an effective, independent regulator for the Farm Credit System (FCS) banks. In the remaining three or four weeks of this First Session, it would be a significant achievement for the Congress to enact a bill to accomplish this reorganization.

Second, Congress should then analyze the underlying causes of the credit problems of agriculture and prioritize Federal financial assistance, if any, to addressing these fundamental problems in the most cost effective ways possible. It well may be the Committee's determination that Federal financial assistance should be provided to agricultural borrowers in order to ameliorate their present losses and to encourage continued lending to farmers this Spring. If so, from a standpoint of basic fairness and competitive equity, such assistance must be made available to borrowers from both Farm Credit System banks and commercial agricultural banks on the same basis.

Third, in the process of reconstituting the Farm Credit Administration (FCA) as an autonomous, effective regulator responsible for the safety and soundness of the Farm Credit System, careful thought must be given to the future roles of the various components of the System. It would be a great mistake for Congress to deal only with the reorganization of the FCA, and not also address the equally important question of what type of lending institutions the components of the FCS will be in the future.

The Student Loan Marketing Association, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation--to cite three of several good examples--are all organizations which share with the Farm Credit System the status of quasi-public corporations. However, unlike FCS, these organizations have evolved with Congressional oversight into corporations better shaped for competing in today's financial marketplace. These entities have achieved significant market niches. All are now paying Federal and state taxes. The first two also trade their stock on the national securities exchanges. Banking believes that modernization of the Farm Credit System in this direction is a goal whose time has clearly come.

With respect to restructuring of FCA, our Associations support strengthening it as an independent, arm's length regulator functioning in a manner similar to that of other bank regulatory agencies. We also support the principal that the Farm Credit System be required to pool and use its own capital resources as a means of immediate self-help. Legislation may not be necessary for that purpose. But if legislation is deemed necessary, it should be strictly limited to pooling the resources for the time period necessary to stabilize the System. It should not confer broad, additional authority on any entity of the FCS that would be retained by that central entity after the short-term problems are resolved.

In summary, Mr. Chairman, we support the efforts of your Committee to begin addressing the financial problems of the Farm Credit System. The problems of the FCS are largely symptomatic of deeper structural conditions confronting the agricultural community, and the financial problems of commercial banks are almost identical in nature to the FCS's predicament. Treating all the credit problems of agriculture may not be financially possible due to the magnitude of cost. However, if direct financial assistance is provided to FCS banks, then it must as a matter of fairness and equity be provided to commercial agricultural banks and our borrowers. Congress should restructure the FCA into an effective, independent regulatory agency, while also reconstituting the remainder of the FCS banks into a more privatized set of institutions.

We hope these recommendations are helpful. Our Associations will continue to work with you to develop constructive solutions to the agricultural finance problems.

Sincerely,

B.F. Backlund
B.F. Backlund
President
Independent Bankers
Association of America

Donald T. Senterfitt
Donald T. Senterfitt
President
American Bankers Association

Chairman HUBBARD. This is a big State with 120 counties. We are honored to have the immediate past president of the Kentucky Bankers Association, L.M. "Mac" McBride, living just a few miles from here in the city of Fulton, KY.

At this time we would excuse from the witness table——

Mr. PARRIS. Mr. Chairman.

Chairman HUBBARD. Oh, excuse me.

Mr. PARRIS. Before you do that, I wonder if I might just ask a couple of very quick questions of the ladies and gentlemen here, and I will be very brief.

I was interested in Mr. Bennett's remark about the PIK Program. And, you know there is an old saying in the computer industry, "garbage in, garbage out." We were told the PIK Program was going to cost something around $22 billion as I remember. It cost $67 billion, and the reason is, everybody took all their ratty old wheat fields and put them into the program and kept farming what they were farming otherwise and got paid for doing nothing.

Now the question I have, Mr. Bennett, is this, and I will be perfectly candid with you. I had some real problems. I voted for it but I lost a little sleep worrying about whether I ought to vote for the farm bill. And some of the reasons for that was that we were told that it was going to provide a safety net; that it is going to be a framework for the rescue of the agricultural industry that remained and so forth. I am not really sure if we are going to warehouse the bad loans in the Farm Credit System and if we are going to reduce the crop loans that you receive at harvest time and push down prices and so forth; I mean is it going to work or is it not? Did we do the right thing?

VOICE. No.

Mr. PARRIS. This is a hell of a time to tell me, I will tell you that.

Mr. BENNETT. All I can give you is my personal opinion. I do not think that it will solve all the problems.

Mr. PARRIS. I know, I am sure of that.

Mr. BENNETT. I think that it is a step toward solving some of the problems.

Mr. PARRIS. At least it is a positive step.

Mr. BENNETT. I think there are some features in the bill that are positive steps. But I think there are some other things in it which have been addressed here today that must be looked at, too, before we can really see the turnaround in agriculture that needs to occur.

Mr. PARRIS. I do not think that anybody seriously suggests that we have solved all the problems with just the stroke of the pen.

Your friends call you Eva, Mrs. Watson. Eva, let me ask you a question, all right? Would it help if we stretched out the repayment program on farm credit? If the Congress would adopt a stretchout for national bank lenders, the Farm Credit System, we can do that, we have the authority to do that. What I am saying is instead of paying your loan in 10 years, pay it in 20 or 30 or whatever. Would that help? It is a cash flow problem. Mr. McBride talked about that. Should we do that?

Mrs. WATSON. We could get more for our product where, in say a few years, where we could pay this off.

Mr. PARRIS. So you do pay more interest but you are going to pay less now, would that help you?

Mrs. WATSON. Yes.

Mr. PARRIS. It is one possibility, obviously.

Mrs. WATSON. Yes.

Mr. PARRIS. And here we go again, is it the right possibility, that is the real question.

VOICE. Would you repeat that question please? Did you say more interest?

Mr. PARRIS. Yes, you pay more interest over a period of the longer loan, obviously. If you pay interest for 30 years you are going to pay more than if you would pay 20, for a period of 20.

Mr. BENNETT. Could I address that?

Mr. PARRIS. Sure.

Mr. BENNETT. I think a great deal of this is being done. Loans are being restructured, not only by the private lenders at local banks, they are being restructured by the insurance companies and so on, to give the people a longer repayment schedule. But again, they need to have cash flow in order to meet those, and that is where our serious problems have come about—having the cash flow to meet any type of a repayment schedule. That is brought about by the fact that there is a cost/price squeeze that has put farmers in a position to where even the good farmers are producing products at really below cost.

Mr. PARRIS. That is why I asked the question, Mr. Bennett. And this is a nonpartisan—Carroll and I do not have a partisan relationship. We are friends and we work together to try to solve these problems. I am basically conservative. My question is, should the Federal Government require appropriate lending agencies, governmental or otherwise, to stretch out the moratorium on farm foreclosures? That is one suggestion. Should we require the extension of the loan periods? We can do that.

I read Mr. Esche's testimony, which is really a very tragic story about the acquisition of additional land and when you sold it. That is a serious hit for anybody.

Mr. ESCHE. Well, this I knew, as my testimony is written there. I understood that when I went into it. And some of these other problems are my problem, the high interest rates. But not this attitude of the Federal land bank on the stock and things like that.

Mr. PARRIS. That is my question to you, Mr. Esche. You go through the question of the redemption of the stock and what appears to be misrepresentations.

Mr. ESCHE. It was not misrepresentation, sir. I think it was only change in policy.

Mr. PARRIS. OK. That is my first question. So were you told—did they in fact tell you that you had to repay all the principal before you could redeem any of the stock?

Mr. ESCHE. This was probably 10 years ago or sometime back. I was only dreaming of paying it off, but I was not having any problems there. But, yes, I was told 10, 15 years ago, I do not know when, that you would have to pay off nearly all your loan before you could get the stock back from the Federal land bank, which did not seem fair to me. But I did not have any chances of paying it all off, so it did not make that much difference. But I accepted that.

But when I asked the man, when I sold the farm and took the money and paid on the loan, what about my stock redemption now? He said, since you asked me, I have to redeem it. Had you not asked me, I was told to not mention it.

Mr. PARRIS. He is not supposed to talk you into it.

Mr. ESCHE. No, sir. He does not want to suggest that I can.

Mr. PARRIS. Did they in fact redeem it?

Mr. ESCHE. Yes, sir, they did.

Mr. PARRIS. The critical part of that thing is, as you know, the Farm Credit System legislation it seems to me had about three legs on it. One, we want to pour oil in the troubled water in the financial markets, the banking people know something about all that; we wanted to restore the funding strength of the System and we did not want the $5 billion worth of stock to try to be redeemed overnight just like that, to better pay on the investments in other—in more stable financial positions, like Mr. McBride was talking about. You are getting some of your customers back. If you are getting all of your customers back, and I know you are not, but if you were, from people who were previously dealing with the Farm Credit System, then that $5 billion we are pouring in the back and you are taking it out the front, so to speak, and that isn't going to help. So we wanted to try to do the right thing with the Farm Credit System, but not take all of that equity out in terms of the stock investment It is too early to tell whether it is going to work or not. But that is the theory. Do you agree with that, Carroll?

Chairman HUBBARD. I do, indeed.

Mr. PARRIS. Thank you very much.

Chairman HUBBARD. Thank you, Congressman. We have many more questions to ask but perhaps of other witnesses. We would excuse from the witness table at this time and express our appreciation to Mac McBride, Jim Esche, Eva Watson, and Charlie Bennett.

Mr. MCBRIDE. I will just mail this to you.

Chairman HUBBARD. Oh, just give it to Harold Garrison here, your neighbor from Hickman. We will take it back with us. Please stay with us if you can. We would like to keep this going. We know many of you are here to testify. And any of you who want to testify can testify. Charles Magness, for example, who is not on our list, but who is from the Jackson Purchase Production Credit Association. It would be very helpful to our subcommittee to hear your testimony later.

I want to ask to join us now at the witness table Richard (Dick) Dickinson, Jr., of Guthrie, KY in Todd County; W.L. (Bill) Hale III, president of the Exchange Bank of Mayfield; Harold Shaw, president of the Liberty Savings Bank of Mayfield; and George Pettit, Jr., a farmer from Princeton, Caldwell County, KY.

We call on Larry Wilson at this time as our next witness.

Larry Wilson is a farmer from Route 1, Arlington. Not Virginia I might add. He represents Arlington, KY, which is a little different than one of the cities you represent in Congress, Congressman Parris.

Larry Wilson, we are glad you are here.

STATEMENT OF THOMAS LARRY WILSON, ARLINGTON, KY

Mr. WILSON. Thank you, Congressman Hubbard, and thank you, Congressman Parris, for taking the time to be here to hear testimony from farmers in this area.

I was born and raised in agriculture. I have been in agriculture most of my life. I have also been involved in the Farm Credit System, and was a director for 5 years in the Farm Credit System. I have an association with a major corporation, and in the last 7 years, I have been able to travel to Russia, Hungary, Brazil, Venezuela, and different parts of our country to share a lot of those views.

Speaking about the bili to support the guarantee to sell the bonds of the Farm Credit System, I do not agree with that totally. I believe to support this is to support more problems for agriculture in the future. To address the sale of bonds is to address a sale of business that shows it can make a profit on money that has been borrowed. We need to address the front of the problem, to do things that will make agriculture profitable and allow the farmers a profit where they can pay the part of thier credit instead of trying to do things to borrow more money.

I think we have to look at how farm debt has increased and the things that we are doing or showing that there is no profit in order to decrease debt. I also think what we have to do things to decrease debt instead of putting more credit out there to increase more debt.

I think really we have not been honest with credit in agriculture since 1980. From 1980 in the Farm Credit System all of the problem loans up until now, we were able to shuffle most of those loans out of the Farm Credit System into FHA. All the problem loans and a lot of those loans to make the Farm Credit System still look good and really we were not looking that good. If we had to maintain all of those loans that we shuffled to FHA and the billions of dollars. Look at the billions of dollars increased in FHA from 1980 until now. It is significant, and most of those loans are very problem loans. If they were not problem loans they would have never left the Farm Credit System to begin with.

I think we waited too late and too long to really tell the full truth of the Farm Credit System and the credit system with total agriculture and the problems that we are trying to solve here today. We are a dollar late and a day short of really admitting the whole truth of showing a profit in agriculture.

I think this has compounded some of the problems today, not being truthful with our business. This year's agriculture bill does not support better prices and a profit for farmers. It supports weaker prices and more losses. So why are we here today talking about more credit? More credit only supports more production. I think we are going to have to address the problem of less credit and support less production. Credit and bonds have to be based on the borrower to produce at a profit and pay off credit and debt; not the Government supporting it and producing weaker prices and more losses. That is the trend that we have had since 1980—putting out more credit and supporting more production at lower prices and more losses. That is the basic philosophy that we have lived through for the last 5 years.

This country has to realize it has to pay a reasonable price for what food the farmers produce so that they can make a profit to stay in business, to keep producing food for this country and the rest of the world. But to keep putting out credit and a system that shows no profit are wrong for the Government and the people. If credit is cut back then production will be cut back, and prices will again come back to show profits. I do not mean to sit here and say that we totally shut off all credit, that is not what I am saying. But I am saying that we have to get back to the business of loaning money in areas that are going to show profits, and we have to be responsible.

I think the real beneficiary of the Congress' passing the bill to support the sale of the bonds is not the farmer. The farmer is not the real beneficiary. The real beneficiary are those people who are investing in the bonds—the investors instead of the farmers.

Now, when talking about this farm bill that just passed we heard cries from Congress that support prices and loans and targets are too cheap. Congress was telling agriculture and they were telling farmers that we are going to have to get down to the business to be competitive with the rest of the world. That we are going to have to lower loan rates to where we are competitive. We cannot keep artificial loan rates on corn at $2.55 and not be competitive with the rest of the world.

My friends, we will never be competitive with the rest of the world with the trend from 1980 to now with what the dollar has done against the rest of the currency of the world. I have traveled these countries in the last 5 or 7 years. Look at our friends in Mexico. What has happened to their currency in the last few years? They need food down there to feed their people. But they can buy less food today than they could a year ago, due to the devaluation of the Mexican peso against the dollar. That is not helping their problems, and that is not helping the American farmers' problems.

When the last farm bill was passed we cried that it was too cheap. Now Congress in this farm bill is saying, hey, we have got to compete with the rest of the world. We will never compete with the rest of the world with what the dollar has done against foreign currency from 1980 to 1985 and continuing that way. There is no way that we can compete.

The next thing is whether Congress is looking at avenues of deregulating restrictions on farmers' being able to send their products into foreign countries. We have got to look at that at this time. Why should the people of Japan have to pay the price of beef that they are paying today only due to regulations? When I visited Venezeula, I found out that they have all types of regulations to keep agricultural prices artificifically high. But we do not have any regulations of bringing crude oil out of Venezeula here. We have to get down to the business of a true market. There is no true market there today for farmers. Look at the number of people around the world today, due to the valuation of the dollar against their currency, who they cannot feed their people. These are problems that I think we have to address.

Another thing is, look at Brazil and at Argentina, and at the amount of grain they are producing for world export markets. Why was it so easy for Argentina and Brazil to be able to totally get rid of their exports of grain and wheat? Because the countries which needed to buy their grain could go to Brazil and Argentina and purchase it at a much less cost to their people. They could not afford our ration—the United States was the last marketplace to come to because of the value of the dollar.

Another thing that I think we should research and look into is today the United States has put ourselves into the position of paying for the reserves of food for this whole world, not just the United States but the whole world. The United States and the taxpayers are paying for the reserves of the billion bushels of corn that we have in government loans, the billion bushels of wheat that we have in government loans, the billion bushels of soybeans we have in government loans. The taxpayers are paying for those reserves to the rest of the world. Why is it that we do not set up some type of plan that Japan share part of that cost? A plan which calls for other countries which need food from us to share part of the cost of maintaining the reserves which the farmers have stored out here in the local bins. I think the solution to agriculture's problems is not to keep talking about credit and putting more credit out there, when we know that the credit at this day and time and with this present agricultural bill that we just passed, is not insurance of paying back part of that credit. It is only going to put us into more debt with no way to pay it back.

Chairman **Hubbard**. Thank you very much, Larry Wilson. We will now call on Warren Owens, also from Carlisle County, as is Larry Wilson. Warren Owens has served as sheriff of Carlisle County, and county court clerk. He will be the new county judge/executive in Carlisle County. Meanwhile, his wife is the county court clerk. Quite popular family over there in——

Mr. **Parris**. A lock on the whole county.

Chairman **Hubbard**. But, he is not a wealthy farmer. He is also a farmer, and if he were not looking forward to being the county judge/executive, he would be very sad about his possibilities for 1986 being a farmer. Right, Warren Owens?

Mr. **Owens**. That is certainly true.

STATEMENT OF WARREN OWENS, BARDWELL, KY

Mr. **Owens**. I do not think I would be able to make it, Carroll. Thank you very much, Carroll, for the opportunity to be here. We appreciate you very much and we thank you, Mr. Parris, for being here.

I appreciate very much the remarks of Commissioner Boswell. I want to take just a little bit different view. I have heard a lot of suggestions about things we might do and the problems that we have had causing us to be in the situation that we are in.

I was born and reared on a farm in Carlisle County. We raised tobacco and hogs and corn and everything that we needed on the farm to eat, Then I was elected a county officer, and now I am going to the judge's office.

I understand that we are going to lose Federal revenue-sharing money. So how am I addressing this with the farm and banking problems? Well, this is the way it is. In Carlisle County the farmers pay 60 to 65 percent of the local taxes. That is for our schools and our county government, and with no profit coming to the farm, they are unable to pay any kind of tax at all. They are not paying any income tax. I know farmers over there in Carlisle County who are farming 700 or 800 acres. They are not paying any Federal income tax, for the simple fact they are not making any money. You cannot balance the budget, and you cannot reduce the deficit with people losing money out here working. So if we ever expect to balance our budget, we are going to have to let these people, who are farming and in other industries also, we are going to have to let them make money and lots of it.

Everybody has a desire to be rich I suppose. But most farmers I know feel an obligation and a duty to this Nation and to their fellow man. It is a moral thing with them to be out there farming. It makes them feel good to be feeding other people. And with all the cuts in revenue sharing coming to the counties, I see very hard times for county governments and city governments.

In city governments they have their own tax structure locally, and they are not as dependent on farmers as the county government. But they are dependent upon the farmers in rural areas to spend their dollars. So, therefore, it stifles the economy in that area.

I would like to point out if I had not had to pay any interest at all this year, if you gentlemen could have provided me money to operate what little dab of farming I did, I would have still probably lost a little bit of money. The low interest rate is fine. It helps reduce the loss. But the profit that we are going to make off our product is the main thing that we are going to have to look at. Lowering support prices and increasing production costs are certainly not going to answer the problems.

The only resource we have here in this country is our land. And the minerals, coal and all that is in the land. So we need to preserve that. I know that we need to lay some of this land out. I think the farmers, if they can make a profit off a part of their land, they should not require the government to pay them full amount that they would receive if they were farming the other parts of their land out. Resting so to speak, and so we would not have to have so much artificial commercial fertilizer to produce the amount of products off this acre of land.

I would just like to say this, too, that a lot of farmers will be going out of business because of financial problems. It is not because they are not efficient. They may be a little bit less efficient, but the American farmer is overall very efficient. I would say this to you, lots of farmers have already gone out of business. If other countries had these farmers, it would not be very long until they would not need to import any grain or anything from this country. They could go over there and show them how to produce it.

I would just like to stress again that you cannot help them by lowering the support prices and expecting the farmer to lose money. If you try, you won't keep your schools open locally; you won't keep your county governments going; and if they cannot pay income taxes, and you wont't keep the Federal Government going. So it seems crazy to me to want to sell to foreign countries at less prices than what it takes to produce it.

That is about all I have to say today, gentlemen. Thank you very much for the opportunity to be here.

Chairman HUBBARD. At this time I want to ask Forrest Burchard of Melber, KY to join us at the witness table.

Let us hear from a banker now. In fact a person who knows I am accurate in saying he's been my banker ever since 1962. He has loaned me lots of money, and I have paid almost all of it back. Howard Shaw, the president of Liberty Savings Bank in Mayfield, who was host to Paul Volcker when the Chairman of the Federal Reserve Board visited our community. You would have liked our signs around town when we had the second most powerful man in America in Mayfield, the Chairman of the Federal Reserve Board. The local McDonald's had a sign out front that said, "Welcome to Mayfield, Paul." That made the Wall Street Journal I might add, that sign, "Welcome to Mayfield, Paul."

Howard Shaw, you have been president of Liberty Savings Bank for how many years?

Mr. SHAW. Thirty years.

Chairman HUBBARD. Thirty years.

Mr. SHAW. Yes, it will be 30 years March 9, 1986.

Chairman HUBBARD. That is——

Mr. SHAW. I am approaching retirement age.

Chairman HUBBARD. That is an outstanding record that you have. You have a very successful bank here in my hometown. Please proceed.

STATEMENT OF HOWARD L. SHAW, PRESIDENT, LIBERTY SAVINGS BANK OF MAYFIELD, KY

Mr. SHAW. Congressman Hubbard and Congressman Parris, I really appreciate this opportunity to speak to you, and I am very much surprised to see you here. I did not know if you were going to get out of Washington last night or not. I am surprised to see you here today.

But most of the remarks I have documented have already been voiced, and they are all important. But what I have to say is that we appear to be viewing things that are in the past, or after the fact so to speak. These problems that we have created, well, importantly is that the size of farm operations has decreased dramatically over the last 55 years. We had 6½ million farms with about 25 of every 100 Americans working on these farms back in 1930. Our population then was 135 million. We have 235 million population now; about 2.4 million people—2.4 million farms with only about 2 or 3 out of 100 people working on these farms. So you can see this has changed dramatically.

Now when you have such a dramatic change in volume in a business, problems are created. One is a problem of additional financing. Now this is a problem that is not too readily recognized by an entrant into business. He does not realize that the greater the volume he does, the more money that it will take. And in this case, what has happened is the funds required to finance this has outstripped not only the lender but also the borrower. I can remember when we used to have the following situation when Mr. Jones came into the bank, he had 150 acres of land, and if he came in to borrow money or whatever he wanted, Mr. Jones could get it. Why? Because we were looking at collateral lending then. We were looking at collateral lending, not cash flow lending. Now we knew that he had always paid his debts. He had always come up with the money. But as far as looking at his cash flow, we just did not look at that.

Now, the situation has changed. What we are faced with is that, the American farmer, instead of basking in the glory of his great capacity to produce enough food to feed a hungry world is faced with a lifetime of work and investment on the verge of ruin. What has now happened is that we hear these echoes of subsidy, controls, allocation, parity, embargo—all these words—which point only to the sterility of our farm program. So we need something to be done.

We say high interest rates are a problem. Well it is interesting that before your subcommittee, the Subcommittee on General Oversight and Investigations of the House Committee on Banking, Finance and Urban Affairs, this is all connected. If you take an animal that you have had as a pet for a long time and you turn him loose in the wilds, he will have a hard time to survive. Deregulation has had its effects, positively in many cases, on the consumer. But negatively in many cases. The same boom that has taken place for the high interest rates that your consumer received for his certificate of deposit has backfired and created a high interest rate for the farmer who borrows the money. So you cannot go out and pay 16 percent for money for a CD and turn around and lend it to a farmer at 10 percent, can you? Even with a large volume you would soon go out of business, is that not right?

So we have this problem. We have turned deregulation loose. Now we have not yet seen the ultimate effects of deregulation. The consumers are paying for it, and I am not saying it is bad. What I am saying is that there needs to be a period—even when we are married—there needs to be a period of adjustment. You would agree to that, wouldn't you, Carroll?

Chairman HUBBARD. Yes.

Mr. SHAW. You need a period of adjustment, and in deregulation there must be a period of adjustment so we can adjust to this.

We talk about the interest rates. Now this is a result of something that we have done—something good that we have done. You talk about something else. You are not as old as I am and you probably do not remember the HOLC, Did you ever hear the initials before? That is the Home Owners Loan Corporation. That was one of the few Government subsidies or Government organizations that went into business, did its job, and went out of business in a blaze of glory. The HOLC saved many individual farmowners by doing the same thing with its program that you are doing with the Federal home loan banks, Federal land banks and the PCA's. You have a central bank where you are funneling all these bad loans into. Now you have got them in a corral, and you are going to service those loans. You are going to save the people who have these obligations. Now you can do it, but you will not do it in 2 or 3 years. Home Owners Loan Corporation is one of the Government programs that went into effect, served its purpose and went out of business.

Mr. PARRIS. You just told me something I never heard. Excuse me, Mr. Shaw, for interrupting. But the closest thing to eternal life is a governmental program. Now that is the first time that I ever heard of a program that did a damn thing——

Mr. SHAW. Did you ever hear of the HOLC?

Mr. PARRIS. No, I never heard of that. But you can count on it that I am going to look into it.

Mr. SHAW. Look into it. If I am wrong, write me a letter. You see the reason I know this, one of my good friends bought a home that was in the Home Owners Loan Corporation. And they had interest subsidies there. Now you talk about an interest subsidy, that's one thing. The central bank is a good thing. Another thing that concerns me is that we are—we will, whether we like it or not—going to see a decrease in the number of productive farm units. That means some of them are going to go out of business, and that is sad. We are not talking about young people now who are "trainables," who can go out and train for another profession. We are talking about elderly people who are maybe 55 to 60 years old. The problem of rehabilitation as far as these people is concerned is a big problem. And I saw a program on "60 Minutes" where—you know they pray for these hippy programs, they all pray to these guys who go around with weapons to give them. Now I am not talking about these Saturday night specials, but I am talking about automatic combat weapons that they gave them. The story was on TV. This happened not a month ago down in Alabama where they are threatening foreclosure. They showed up with these automatic weapons and they did not foreclose. This is a real problem, and we have to face that.

And another thing, we talk about embargo. One of the embargoes is a self-imposed embargo. We say we need a strong dollar. Do we like a strong dollar? Do we like our dollar to be strong in comparison to other currencies? The strong dollar is the reason that we are not competitive with our farm prices, because that dollar goes up and they cannot buy our farm prices. So we create an embargo on this.

Another thing we talk about is interest rates. What is the underlying interest rate? Well, our rates are not 13 percent. Have you heard of 8.5 on a car or truck? Do you know what the rate of interest today relative to rates 30 years ago is? When our bank went into business 30 years ago we had 6 percent interest. Now you say 6 percent interest. We did not say 6 percent APR, we just said 6 percent. The 8.5 is 3 percent less than you paid 30 years ago. Interest rates are high, but we caused that to happen. The strong dollar, what are we going to do about that? We want to keep it strong because we want our preeminence there.

And you talk about the bonds, the farm bonds. We are operating at cross purposes here. That is a tax-exempt bond. It represents a good investment for some investors and bad investment for others. Again, we are operating at cross purposes. On the one hand they get it and the other hand the IRS takes it away. They said, no, we are not going to do that. We cannot allow this. So if it is good on this hand, it is bad over here. Being at cross purposes we cannot succeed with this program.

What I am saying finally is that farming is big business and small business. The same components that make for a successful and profitable operation in other industries apply to our farmers. The necessity of urgent and decisive action cannot be overemphasized. And I know that the programs that you are talking about now, the programs that have already been passed, it will be very unusual if they really address the problems that we have and really solve them. But the encouragement we have is that you, Congressman Hubbard, and you, Congressman Parris, are doing something about it.

Thank you very much.

[The prepared statement of Mr. Shaw follows:]

PREPARED STATEMENT OF HOWARD L. SHAW, PRESIDENT, LIBERTY SAVINGS BANK, MAYFIELD, KY

Thank you gentlemen for inviting me to share some thoughts regarding the plight of farmers in dealing with their problems. I feel the same sense of urgency that has been voiced and look for an early solution to some of the concerns that face us.

When asked "What's happening down on the farm", the picture of fields of golden grain stretching to the horizon, fields of corn tasseling skyward, lush green pastures, and feed lots alive with sleek cattle and fat hogs, comes to mind. Snow-white fences encircle a stately farmhouse nestled in a grove of trees.

A picture of prosperity and well-being. What's it really like?

Instead of fields of waving grain, a sea of faces with outstretched hands pleading for help. Farm equipment fills auction barns awaiting a buyer; foreclosure notices crowd the pages of the local press. Bankruptcy courts are crowded with petitioners. The farm industry is in real trouble.

Prices for farm products bear little or no relation to costs of production. With the increasing size of the farm unit, demands for capital have increased many-fold and out-stripped both borrower and lender capacity. The genius of production threatens to be the monster that consumes the producer.

Problems that plague the farm industry did not appear overnight. Since 1930 a dramatic change has taken place. When there were 130 million Americans, there were 6.5 million farms. About 25 of every 100 Americans lived on farms. In 1985 it is safe to estimate that no more than two Americans out of 100 live there. While America's population has increased to 235 million, the number of farms has dropped to 2.4 million. Only 3.3 million of us work in agriculture.

The American farmer, instead of basking in the glory of his great capacity to produce enough to feed most of a hungry world, is faced with a lifetime of work and investment on the verge of ruin. The echoes of "Parity"—"Support"—"Embargo"—"Subsidy"—"Controls"—"Allocation"—point to the sterility of our farm programs.

The Jackson Purchase Area is plagued with the same problems found nationally among farmers. With excessive debt to service, production profits are squeezed to the point where there is no cash flow; and to further exacerbate a bad situation, the elements have been uncooperative over the past three years. High interest rates, a strong dollar, and the insidious effects of inflation make their presence known as efforts are made to turn the industry around.

What can be done to alleviate some of these problems?

I. Our initial responsibility is to produce enough to feed our people.

II. The problem of over-production must be faced. Reduction in the number of producing farm units will be necessary, which in turn raises the problem of aid in the rehabilitation of displaced farmers which must be addressed.

III. In conjunction with the parallel alignment of the farm credit agencies, plans to aid farmers who have real equity and farmers who have negative equity positions should be put in place.

Finally, farming is *Big Business* and *small businesses*. The same components that make for successful and profitable operations in other industries apply to our farmers.

The necessity of urgent and decisive action cannot be overemphasized. You can be assured of support as your efforts are directed toward solving these great problems.

Thank you for your presence in the Purchase, and especially in Mayfield.

Chairman **Hubbard**. Thank you, Howard Shaw. We appreciate your good remarks. Next, I am going to call on Dick Dickinson and at the same time I ask Victor Powell, the executive vice president of the Bank of Benton; and also Bill Rudy from Ballard County to join us. Bill Rudy is the western Kentucky representative for the Kentucky Department of Agriculture. In a moment, I want Bill Rudy, George Pettit, and Forrest Burchard, who are three of the most respected people in agriculture in western Kentucky—all three of whom have experienced rough financial times because of their heavy investment in farming. I want them to come on up along with Victor Powell.

Dick Dickinson from Guthrie, KY. Thank you for driving the distance from Todd County to be here today. We hear you now.

Mr. **Dickinson**. Thank you, Mr. Chairman.

Chairman **Hubbard**. Tell us a little bit about your farming operation.

Mr. **Dickinson**. All right.

STATEMENT OF RICHARD DICKINSON, JR., GUTHRIE, KY

Mr. **Dickinson**. Mr. Parris. I am a Todd County farmer. I own—the land bank and I own together—about 937 acres and I rent an additional 900 acres in western Kentucky.

Before I read my prepared remarks, I would like to comment on something Mr. Parris said earlier about the stretchout of existing debt. My friends and I met and caucused in the corner over there as you made those remarks. We feel that without some type of interest and relief on the rate of interest that we have to pay, a stretchout of principal payments would be marginal assistance at best. It is the rate of interest that is killing us on both ends in fact. It is a cost factor that increases our cost; and we are told is the reason for the strength of the dollar which enables us to be—or prevents us from being competitive in world markets. So it is the rate of interest that we feel is the real culprit in this and a stretchout would not be a great help.

Mr. **Parris**. On that point, Mr. Dickinson, we have the authority to do it. Should we just impose a maximum rate of interest?

Mr. **Dickinson**. Well, of course that appeals to me. You would have a lot of resistance I am sure from the Federal Reserve and others in doing so.

Mr. **Parris**. Well, your banker friends might not be too excited about that. If we just said that no bank and no federally regulated, no nationally supervised bank in the United States can extend farm credit for interest rates in excess of 6 percent.

Mr. **Dickinson**. I think you would get a standing ovation for that, yes.

Mr. **Parris**. Would that be good or bad, Mr. Shaw?

Mr. **Shaw**. That is fine, as long as you put the other element in there.

Mr. **Parris**. Yes, we have got to come up with the difference between the 6 percent and the——

Mr. **Shaw**. No, no. All you have to say is no more than this amount of interest to the farmer, but you cannot pay more than this amount to any one, and you get your non-bank banks in there, too. For they cannot pay any more and take the money that——

Mr. PARRIS. Sears, & Roebuck takes all your deposits away.

Mr. SHAW. That is right.

Mr. PARRIS. With no reserves and no regulations at all.

Mr. SHAW. Let the money stay there and we can lend it back to the farmers. We would be happy to do that. We made more money doing that than we did the other way.

Chairman HUBBARD. Bill Hale, the president of the Exchange Bank here in Mayfield, could you comment as to the question that Congressman Parris asked?

Mr. HALE. Well, I would have to sort of echo what Mr. Shaw said, and I think if some type of limitation were not put on interest rates we have to pay to depositors, then there just would not be funds available at that rate.

Mr. PARRIS. As long as we have asset regulations, we ought to have liability regulations.

Mr. HALE. That is right.

Chairman HUBBARD. Victor Powell of the Bank of Benton, would you comment on that?

Mr. POWELL. Interest rate limitation would simply drive the credit from the commercial banking system, because without the regulation in a free market, we are going to have to pay for the funds. You cannot loan money for less than you pay for it.

Mr. PARRIS. Mr. Chairman, if I might, and I apologize for continuing to interrupt here, but I——

Chairman HUBBARD. You do not need to apologize at all.

Mr. PARRIS. Well, thank you. I wanted to say to you, I have got to get away very shortly. I have got to leave, According to this schedule, I have to leave about 12:30 or so to get back to Louisville to catch an airplane to return to Washington at 5. I have another obligation in my district tonight. So I am going to head on back. For that I apologize to you. I was late getting here and I am leaving early and I am sorry. But this has been very helpful to me and I truly mean this, I am very grateful to you, Mr. Chairman, for permitting me to come and be with you.

Let me just—and I will slide out quietly while you gentlemen go on with your testimony here a little bit—let me take 1 minute here. In the statement that I put into the record of this hearing, it says in part, and this is really I guess where I am coming from, and see if I get any violent reactions from this. The price supports and target prices and the ceilings and the loan credit programs and all of that, what I call welfare for farmers in kind of a backhanded way, have failed the very farming industry in my opinion that they were designed to assist. Now they have not saved family farmers. I think it was Mr. Shaw who said that, since 1940, the number of independent farm operations has dropped by two-thirds. We have seen the growth of the huge corporate conglomerate farms and that sort of thing. It has not stabilized farm incomes; they have not expanded food exports. In truth, they have done exactly the opposite; and we have spent hundreds of billions of dollars on them.

Now, they do not rescue farmers in trouble because we have seen that is not working in the real world. If there is one thing we can learn from all of this, is that the Government, any government, including the strongest one in the world, which is ours, simply cannot easily anticipate or override or fight the basic changes in economic conditions. If there is a fundamental principle upon which I hope you gentlemen would agree, it ought to be the guiding beacon for what Carroll and I do in these difficult questions. If we can do whatever it is that you have to do to provide a stable market for the sale of agricultural products at a reasonable price, this ought to be where we are trying to go.

Would anybody disagree with that statement?

Mr. **Dickinson**. The definition of a reasonable price is probably where we get hung up there.

Mr. **Parris**. Oh, I understand that. And how you do all of that—the business of Government is not to be in business. What we have done is create all these artificial barriers that you guys have to wrestle with every day and climb over and kick around; when in fact if you had a stable market and you could have some assurance that your costs were going to be such and your production was going to be something else and you knew it was going to be there for you, internationally or otherwise, and we stop messing around with it, you would be a hell of a lot better off, would you not?

Voice. If you could get them out I would praise the Lord. I have been trying to get them out since 1938.

Mr. **Parris**. I know.

Mr. **Dickinson**. Realistically though, I do not think we can expect any government to stay out of their food supply. I think it is imperative that they see that there is an adequate supply of food. Governments have been toppled for trying to raise the price of bread in foreign countries, not here. So any government is going to have their finger on the pulse of agriculture.

Mr. **Parris**. I think Mr. Wilson was talking about one of the dumbest things it seems to me, and hindsight is 20/20, but one of the dumbest programs the Federal Government has ever engaged in, and this is not a partisan statement, but Jimmy Carter put the embargo on and that has got to be the most injurious thing that has ever been done in recent times to the agricultural economy. Is that not correct?

Mr. **Dickinson**. Well, I agree on the damage and I have most of my constituents who would not agree with what I am about to say about the embargo. I feel like that is a legitimate prerogative that the Chief Executive has to maintain. As the leader of the free world, it looks bad and is inconsistent for us to sell to our so-called enemies. Is Russia an enemy? Is the invasion of Afghanistan wrong or right? Do we sell at below cost, to people who do these kinds of things? I think it would be damaging to our image in the world to do this. Economically it is a disaster. I think the President should have the ability and the freedom to do this. We cannot take it away from him, but it should not impact prices. Now that is where the Federal Government has got to step in.

Mr. **Parris**. But the practical effect of that, Mr. Dickinson, was that the Soviet Union simply went to Argentina and Brazil and other places and bought grain from the producers there at cheaper price. Now they are in business and they are continuing to produce, even after we released the embargo. They continue to produce at cheaper costs and drive you all out of the international market place.

Mr. DICKINSON. I agree that has happened, but I do not see that you had an alternative.

Mr. PARRIS. Perhaps not. Well, thank you, Mr. Chairman.

Chairman HUBBARD. Let me ask my colleague and friend, Stan Parris, to wait 8 more minutes.

Mr. PARRIS. As long as I do not miss the airplane to Louisville.

Chairman HUBBARD. We will see that you do not miss your plane.

Mr. PARRIS. I will stay as long as you think——

Chairman HUBBARD. We will see that you do not. I want to ask Gordon Samples to come up. I want to give these four farmers just 2 minutes each. When they reach 2 minutes, I am going to cut them off.

Mr. PARRIS. That is fair. I will live with that.

Chairman HUBBARD. There are too many farmers in this room whom I wish you could hear. Gordon Samples is from Hickman County, and we have not heard from Hickman County. Bill Rudy, would you be first to speak?

Mr. RUDY. We appreciate your coming. I want to try to cover these things. First, we have to have a profit. We have had increased technology, the capacity to work more land. We are working land that is marginal level. It should probably never have been put under the plow. But we have got to deal with that. We have to conserve our soil, and the public needs to be aware that food is not a liability. I venture to say that you go out here on the street, Main Street anywhere, ask the people of our Nation the most important thing and very few of them would have foods included in their list. We need to have a better understanding, and we need some new ideas. This whole thing, as I see it now, is a wreck, and we need to have something done.

Chairman HUBBARD. This wonderful man from Ballard County, was a farm implement dealer. He kept selling implements, and farm equipment, and machinery to farmers in western Kentucky. They could not pay him back, but he kept on selling and selling until finally he, himself, was in financial ruin.

Mr. RUDY. We were not in implement business, Mr. Chairman. We were in the feed, fertilizer, and chemical business.

Chairman HUBBARD. Feed, fertilizer, chemical. Anyway, his business went deep, deep into debt because of his continuing efforts to be willing to sell more and more to farmers because they needed it and yet they could not pay him back. His neighbors in Ballard County recently held a tribute to him. I will tell you about it later, but it was unique to say the least. What his neighbors and friends did was to try to pay him back for his generosity through the years which led to his own financial chaos. I am so glad that you are the field representative now for the Kentucky State Agriculture Department.

Mr. RUDY. Thank you.

Chairman HUBBARD. Two minutes. George Pettit, who was once upon a time a very successful hog farmer. Tell us about it now, George.

STATEMENT OF GEORGE PETTIT, PRINCETON, KY

Mr. **Pettit**. Well, I used to be a hog farmer.

Mr. **Parris**. I just categorized the tax reform bill, you could put a dress on a hog but it is still an ugly hog.

Mr. **Pettit**. That is exactly right.

Mr. **Parris**. That guy on the "Today" program, I did not see it, but a lot of people have written to me about it.

Mr. **Pettit**. But it is not what hogs look like, Congressman, it is what they smell like.

Mr. **Parris**. That is right.

Mr. **Pettit**. You find folks up there who may have some problem with their smell. I think the first thing that we are going to have to do is to establish a definition of what we want in this Nation from agriculture. Whom do we want to be the primary participants in agriculture? Do we want our family farm system or do we want a large megacorporate style farm that probably takes the product from the field into the consumers marketplace?

The second thing I think we are going to have to do is to recognize that our marketing system is an oligarchy by nature. We have five grain companies, four of which are not even domestically owned, family-held corporations; one of which is. They are the primary beneficiaries of our cheap grain. We are subsidizing them.

The third thing that I think we are going to have to do is we are going to have to talk about quality of life.

Now, let me define that. In the State of Iowa their ACT and SAT scores are the highest in the Nation for their young people. They are predominately an agricultural State.

Now that should tell us something about what these young men and women coming from farms have the capacity to do. I think we should take a long hard look at that because the future of this Nation is dependent upon our young men and women. They are our strategic resource. Our land is our second most important resource. We have to put the two in tandem, and we need to ponder the future, something we will not do with bipartisan politics. Never in my life have I been in a room with so many people with whom I have agreed about so many things said. Never. I am almost appalled by the fact that I am sitting in this room today listening to one person after another echo each other. There is a consensus in the grassroots. And you people in Congress must listen to these people, because they know what they need.

Chairman **Hubbard**. Thank you very much, George Pettit.

Mr. **Pettit**. Thank you.

Chairman **Hubbard**. We appreciate you and your wife being here from Princeton, KY.

[The prepared statement of Mr. Pettit follows:]

Prepared Statement of George Pettit, Princeton, KY

Distinguished members of the subcommittee and Mr. Chairman: Your task undertaken by this subcommittee is indeed difficult. If your objective is to accumulate information with our respect to the development of both short and long term public policy, then our nation will suffer irreparable damage. If indeed your objective is to implement fair and reasonable public policy that will result in a renewal of prosperity in rural America and thus the nation, the nation then all will rejoice.

To be sure, we face a crisis down on the farm. Rural communities throughout this land are devastated by the severity of the economic farces crushing our most productive citizen, the farmer.

Our farm debt has reached the threshold of intolerance. In 1952 this nations' farmers owed 10 billion dollars. Our government owed some 500 billion dollars. Today the documented farm debt is some 220 billion dollars and some have suggested that it may be double this amount. Only "The Thinker" has time to contemplate our national debt at present. Were he placed in the same economic and political environment as our farmers, he would crumble before his time.

Our productivity has risen dramatically since 1952. Output per farm has zoomed with only 600,000 farmers and their families providing the bulk of our commodities. Debt financing of these enterprises; herein lies your problem. These farm families feed over 345 million people! They are not the problem; they are the solution!

Why have these individuals become hung in this quagmire of debt?

The farmers of this generation stand unique among their forefathers. They have more technology available than those of the past. Without expanding their enterprises to accommodate this phenomena, they would be left with the choice of quitting or becoming part-time farmers.

Public policy since 1952 has recognized this expanding efficiency provided by technology. Our market loan rates have been tied to increased production. What public policy has failed to recognize is that technology is capital intensive. Therefore, the decline in prices generally has kept the farmer with no choice but to expand production to spread the cost over more units.

Thus, we have a vicious cycle with the farmer on the treadmill of produce or perish with the risk expanding relative to each dollar directed toward technology. To further complicate this issue is the fact that generally there is a unitary demand for food. When expanding productive capacity collides with the unitary demand for a product, then the market responds with lower prices.

The perception that the farmer is "rich" due his use or ownership of large machinery, land and specialized buildings is wrong. He has only capitalized the technology needed to provide for a quality of life and most generally to serve his expanding debt.

To further complicate this technological phenomenon is the fact that land grant colleges, credit markets and the government all tended to promote this expansion. Who among you have not heard the common phrase of "get more efficient or get out." Get bigger, Mr. Farmer, or get out.

These everyday statements became the creed of all information sources available to the farmers. The farmers based their long-term decisions on the faith that the system would reward productivity with the opportunity to pursue a chosen life. Therefore, thirty and forty year commitments were made based on this new frontier.

Somebody changed the rules. Congress and the Federal Reserve forgot that the farmer is inelastic once plans are laid. Dr. Earl Butz stood at the Farm Progress show in Galesburg, Illinois, while over 100,00 farmers watched him raise his fist and evangelically shout, "you produce it—We'll sell it." We all must seek the intelligent choices needed to seek resolution to this crisis.

Public policy since 1952 and except for a brief period from 1938 to 1952 has not served the true needs of the American farmer and rural America. Public interest has not been served by farm policy with the exception that "cheap food" has been produced.

What has been the social cost of this cheap food? Look only to the explosion of social programs and the dizzying climb of our federal debt. Without a fair price on our renewable wealth such has been the result.

We could accommodate this expanding productive capacity as long as we had the wealth to consume it. Furthermore, the energy crisis of the early seventies created new centers of wealth in food deficit areas. Thus ensured a new demand center for food products.

We have reached the line on the chart that clearly indicates export demand will move much more slowly. Witness to this situation is our recent declines in export volume of some 11% in supply terms and greater in dollar value from our peak.

We now have a land depression, a crippled economy and a monetary system controlled not by the people but a few strategic banks. The interest farmers will pay on their debt will exceed the income of the industry.

To graphically illustrate the decline in land values I will use a personal experience. In 1978 Pettit Farms purchased 92 acres for $65,000. Over $7,000 were spent in clearing and fertility programs. In 1981 we spent an additional $2,500 on city water taps and the water line. Our investment with real improvements exceeded $74,000.

This property was refinanced in 1981 at $1,080 per acre. Just this second week of November, 1985, the creditor sold the property for $478 per acre.

Recently I asked the owner of a computerized farm record business how his farmers were doing. He has 60 fairly good farmers on his system. They range from 35 to 55 years of age. He stated that the record documents that 58 are broke. One has no debt and is earning less than 2% on his investment. The other will face bankruptcy under our present system.

We face this calamity not because the farmer has not done his job. Our per capita expenditure is less than 14% of our income for food products. We are here because we lack the knowledge to deal with the unique problems of agriculture.

We must deal with this crisis. We must study the record and become aware of those policy mechanisms that worked. To be sure, a fair price is imperative.

We need public policy that clearly reflects the true value of our commodities. We must learn to deal in a global economic environment. To be out-maneuvered by unfair trade policy is a national disgrace. Only large multinational corporations benefit, not the people.

Farmers absolutely cannot withstand these wild gyrations of monetary and public policy. They are too inelastic.

The farm credit crisis will not be served by more credit. The capacity to service the debt will come only from a fair price. If the public is asked to bail-out the farm credit institutions, they must be informed who will get the money. The farmer will not. Only the banker will receive the benefit. We must use public funds to buy down the interest the farmer pays. This would expand the farmers ability to repay his debts. Thus, the integrity of the institutions would be preserved.

We must work with those farmers forced to deed back their farm and home to their creditors. In many cases these creditors sell these properties for far below what they are inventoried. It would only be fair to renegotiate with those farmers if they show the will and capacity to repay at the new price. Many worthy farmers are displaced by this. Productive members of society could be left on the land.

The centralization of our Farm Credit System without a link to the people by local boards will prevent many worthy farmers or young people from receiving a fair assessment. We must maintain the vitality of our grassroots boards as we deal with the well-being of our farmers.

The will of Congress must be asserted. Time is short! The only possible short term intelligent choice to this crisis is the enactment of supply management legislation tied to a loan rate that will force the market to fair prices.

The long-term choices must be made on what structure we wish agriculture to assume. Frankly, we need more farmers not fewer. You only have 62,000 farmers under the age 29. We need to consider the quality of life associated with rural America. Do we want less?

Lord MacAulay, a noted English politician and author, warned that we would be forced to re-think our policies. In 1850 he noted that the physical frontiers would diminish to move the displaced.

We can no longer afford to exploit our two most strategic resources, our people and the land.

Thank you for your interest in this critical issue and for the opportunity to present this testimony.

Chairman HUBBARD. Next, Forrest Burchard. Once upon a time one of the most successful farmers in my home county of Graves and now what is it, Forrest?

STATEMENT OF FORREST BURCHARD

Mr. BURCHARD. Well, now, Carroll, I own 450 acres of farmland that I lease out yearly. I have been selling growers fertilize solutions now for 6 years. I am in my sixth season, and that is my full-time occupation. I have not farmed in 3 years. I have been leasing out my farm.

One of the reasons I wanted to testify before the Banking Committee today is because this is what brought the United States out of a bad situation in 1942 after the war. It was not the Agriculture Committee or any amendment that passed. Rather, it was the Banking Committees at that time who kept the banks from going broke in this country. They had to prop up agriculture to do it. This is what amazes me. Everybody who has testified here today has said that we had to get the price of farm commodities up. But we are a day late. I am going to read from a newspaper, the Mayfield Messenger. I have two copies here. Thursday's Mayfield Messenger, which was yesterday. It says:

> The aim of the new farm bill, the 1980 farm bill, is to lower prices of farm commodities enough to restore attractiveness of U.S. goods to foreign buyers and let crops flow to the market place.

Well that is the dumbest thing I have ever heard in my life. Everybody here today has said you have to get the farm prices up, and we get a farm bill passed to lower the farm prices. Eva Watson made a real good point back here. She said we are going to lower the farm prices so we can export more. But we have the lowest farm prices now, as far as parity is concerned, that we have had since 1933. Our farm exports have dropped alarmingly from near $44 billion in 1981 to a projected $29 billion next year. We have low prices and our exports are falling off, and that is not going to solve our problems.

We talk about high interest rates. I agree they hurt things. But if the farmers were getting a price for their commodities, the high interest rates would be no problem at all. If they were getting paid in parity to what the interest rates are.

This Stegall amendment could be passed. We could do the same thing again. We could pass a bill and give our farmers parity prices. It would not cost the Government anything. They could pass it just like a minimum wage law. All we would have to do is enforce it.

Now the problem we had in 1942, instead of restricting and controlling acreage to hold prices up, was that the Government bought all of the excessive commodities, the surplus, and put up grain bins all over the country and filled them up. If we would do the same thing without the grain bins and restrict our production through the ASC office, we could easily get the needed money because when President Reagan ran for office he promised us one of the first things he would do is abolish the U.S. Department of Education and the U.S. Department of Energy. We could abolish them and have enough money to do what we need to do. The Department of Energy has not produced a gallon of gasoline yet that I know of. And the prices of the fuel have stayed up real high. The only thing the Department is doing, it has kept our farmers from producing alcohol fuel from the grain on their farms which would help take up some of the production we have been producing. Thank you.

Chairman **Hubbard**. I want to ask Jimmy Rogers from Cadiz to come up here. We have not had anybody from Trigg County.

Mr. **Parris**. Mr. Chairman, let me just say this, if I do not leave I am going to spend the night in Louisville. Which is not the highest priority I have had in my life. As much as I have enjoyed coming to Kentucky, I have simply got to get back to my district tonight or I am going to be in real trouble.

Chairman **Hubbard**. I promise him this, I know the time schedule between here and Louisville and you do have time. Give Jimmy Rogers and Gordon Samples——

Mr. **Parris.** I am going to have to sleep in your house tonight, Mr. Chairman.

Chairman **Hubbard.** Gordon Samples, real quick if you will.

Mr. **Samples.** I have great respect for your office and for this subcommittee hearing because I have a great respect for the Constitution that brings it about. I am not going to present my whole testimony. I do have a written testimony. I believe it is seven pages plus five charts. I wish you would read it.

But what I want to say is, I talked to Washington Wednesday to a place where I talk every day and I found out that even though it was an accident, it was a very appropriate action taken Wednesday when the flag of the United States was raised over the Capitol upside down. This is a distress signal.

The farm bill that was voted on is strictly going to put this country in a distress situation. It was very appropriate that that was done, even though it was by accident, because it is very true, what they did.

This hearing is addressing only a symptom of the problem. And the credit problem is only a symptom of the problem. We have heard a lot of statistics already. I do not want to give statistics. I have a lot. But, what we are dealing with is not statistics, we are dealing with people. We are dealing with peoples' lives. I could name you situation after situation of actual human stories that would make you cry. Because it is human hurt that we are facing. The single most important problem of this country is not defense, as a lot of people in Washington try to tell us, our biggest problem is agriculture. Without a strong agriculture we have no defense, no matter how many arms you build.

Chairman **Hubbard.** Thank you very much, Gordon Samples.

Mr. **Samples.** Just 1 second more please.

Chairman **Hubbard.** You will have more time after the Congressman leaves.

Mr. **Samples.** The point——

Chairman **Hubbard.** Jimmy Rogers please from Cadiz.

Mr. **Samples.** The points that he made are some of the basic points I have. But one statement I want to make. If this country is really serious about balancing the budget, there is one bill that I have—I would like to spend time with you later talking about it—that will balance the budget and is the only way that we will balance the budget. This bill that was passed this week will not balance the budget.

Mr. **Parris.** Let me just say this, gentlemen, the record is being taken of this hearing. I assure you, and I gather it is going to go on for some time, I am sure you will have an opportunity to talk to Carroll, who really represents, initially, your best interest, and does it very well as I have said before. I assure you I will review the balance of the hearing record. I hope you will stay as long as you can. I am going to have to run or I am going to be in big trouble and I appreciate it very much.

Chairman **Hubbard.** Jimmy Rogers, what do you have to say as the Congressman leaves?

Mr. **Rogers.** Congressmen Hubbard and Parris, basically what I have to say has already been said. I am not a large farmer. I am a small farmer. The farming operation has been in our family for 40 years. My father, my brother, and I farm approximately 350 acres. The situation has not gotten very much better concerning prices over the years than when I was smaller.

I think, just to sum up all things, basically we need a better price for what we produce. All the operations that are essential for production are costly. You have a large investment, but you get a little return for your investment. I think we have—I have often had to leave the farm for off-the-farm income. But basically I do not think that loaning money at a lower interest rate will solve the problem.

Chairman **Hubbard**. Thank you so much, Jimmy. We will hear from you later. We are going to take a 5-minute break but how about another standing ovation for Congressman Stan Parris.

[Whereupon, a short recess was taken.]

Chairman **Hubbard**. I know you are hungry, and it is past lunch time. I think we would be wise to continue, complete our business and then go eat a late lunch.

Thanks to each of those who were witnesses at the table when we had to adjourn. Is Gene Ray Miller still here?

Voice. He just stepped out. He will be right back.

Chairman **Hubbard**. OK, let us start off and go back to Dick Dickinson and then Bill Hale. Gene Ray Miller come ahead and join us at the table. First National Bank of Mayfield Vice President Gene Ray Miller, a longtime friend of mine. We could have one more join us at the table. Is Dave Hornback, the president of the Federal Land Bank Association, here? Thomas Larkins, from Clinton, KY, a Hickman County farmer. Come up and sit in this seat right here. Now, go ahead. Dick Dickinson, we will ask you to wind up your remarks at this time.

STATEMENT OF RICHARD DICKINSON, JR., GUTHRIE, KY—Continued

Mr. **Dickinson**. Thank you, Mr. Chairman. I appreciate this opportunity to appear before you today. As a farmer I can assure you that there are serious income problems on most commercial farms. This lack of profitability impacts heavily on the viability of those institutions who provide credit for farmers, in particular, the Farm Credit System.

Unless steps are taken to improve net farm income, the cry for Farm Credit System bailouts will become an annual event. It was made clear by David Stockman in the first year of the Reagan administration that they planned to clip the wings of the Farm Credit System. The proposed changes lacked political support and therefore were not part of the President's legislative agenda.

Since there is generally more than one way to get a job done, policies were implemented that when accompanied by low farm income, have made a basket case of the Farm Credit System. As farmers develop financial problems, instead of trying to work out a solution to these problems, the Farm Credit System takes the hard line approach, usually involving foreclosure. This acquired property is then rented to other farmers at a fraction of the caring cost of such property. This drives up the interest rate which others in the

Farm Credit System have to pay, at a time when interest rates charged by other lenders is trending downward.

This interest rate penalty causes most Farm Credit System borrowers who can to leave the System. Now the costs of carrying the acquired property shared by fewer and fewer borrowers who, because of declining land values and inadequate cash flows, are paid by those who are trapped in the Farm Credit System.

It is inconceivable that those in top management could not have foreseen the outcome of such a policy. Such coast to coast mismanagement could not be just a coincidence. A first year accounting major with an understanding of the farm economy could have predicted the disastrous result of this policy.

Senator David Boren in a recent Senate speech gave the salary range of Farm Credit System chief executive officers as being from $146,000 to $233,000—more than double what they were paid in 1980. All of which suggests that incompetence also has its price.

There was not a lack of foresight that caused the demise of the Farm Credit System, but the carrying out of policies such forth at the highest level of the Farm Credit System in Washington, DC.

The clincher to me is the fact that no lender who plans to stay in business would treat its customers in such a cold and callous manner as has the Farm Credit System. The image of the Farm Credit System is so tarnished that should it survive in the future, potential borrowers will stay away in droves.

Since the Farm Credit System as we once knew it is now a terminal case, I would like to voice my strongest support for passage of the Farm Credit Partnership Act, which is contained in the Congressional Record, No. 157, part 2, dated Thursday, November 14, 1985. I talked with Senator Mitch McConnell's office on Tuesday, and it is my understanding that this is not a part of the farm credit bailout that was just passed. Is that correct?

Chairman **Hubbard**. That is true.

Mr. **Dickinson**. All right. This proposed legislation contains provisions for: One, an interest buy down of up to 5 percent; two, a farm credit loan principal reduction of up to 30 percent; and, three, the creation of a capital corporation within the Farm Credit System which could take over problem loans not made whole by the first two provisions.

The farmer/borrower, after operating the land for 3 years under a lease agreement, would have the first option to repurchase the land at the then-market value, and it also contains provisions for private lenders and banks as well as the Farm Credit System.

The 1985 farm bill just passed is a giant step backward away from profitability for farmers. The rationale behind this more market oriented farm bill is flawed in that it assumes that an increase in exports will result in profits for producers.

I have here in my statement a chart from the Wall Street Journal which shows farmers' total debt and net cash income for the years 1970 through 1983. I have drawn on this same chart two other lines which represent farm exports in dollars and in million metric tons for the years 1976 through 1983. This picture tells a story in a very dramatic way.

Farm debt has more than quadrupled, net cash income has remained flat or declined while farm exports have set records for more than ten consecutive years through 1981. When you look at the graph it almost looks like the more we export the more debt there is.

Exports alone are not the answer. The way to have the best of both worlds, that is profits to producers and highly competitive prices in the export market, is through a two price system, a one that allows us to sell to the U.S. market at parity prices and to the export market at world prices. This of course would have to be supported by appropriate import restrictions.

In conclusion, the new farm bill offers farms less hope when more hope is needed. We will see more farm families ripped apart as financial failures increase. And it is ironic that this could occur under the nose of a President who campaigned as the profamily candidate.

We have already seen too many good men take their own lives as all their hopes and dreams vanished in a sea of red ink, red ink caused primarily by record high real interest rates, which is deliberate policy of the Federal Reserve in concert with this administration. Our grandchildren will not outlive the consequences of this treason.

In recent days we have seen this farmer frustration and despair express itself in a still more violent way as three others were killed before the farmer turned the gun on himself. I cannot say what the future holds for us. I can only compare our position to that of our forefathers who more than 200 years ago could not get justice from their government in Britain. The difference between then and now is mainly geographical. Thank you.

[The prepared statement of Mr. Dickinson, follows:]

PREPARED STATEMENT OF RICHARD DICKINSON, FARMER

Mr. Chairman and members of this subcommittee, I appreciate this opportunity to appear before you today. As a farmer, I can assure you that there are serious income problems on most commercial farms. This lack of profitability impacts heavily on the viability of those institutions who provide credit for farmers, in particular the Farm Credit System (FCS). Unless steps are taken to improve net farm income, the cry for a Farm Credit System bail-out will become an annual event.

It was made clear by David Stockman in the first year of the Reagan Administration that they planned to clip the wings of the FCS. The proposed changes lacked political support and were therefore not part of the President's legislative agenda. Since there is generally more than one way to get a job done, policies were implemented, that when accompanied by low farm income, have made a "basket case" of the FCS. As farmers develop financial problems, instead of trying to work out a solution to these problems, the FCS takes the hard line approach, usually involving foreclosure. This acquired property is then rented to other farmers at a fraction of the carrying cost of such property. This drives up the interest rate which others in the FCS have to pay at a time when interest rates charged by other lenders is trending downward. This interest rate "penalty" causes most FCS borrowers who can to leave the system. Now the cost of carrying the acquired property is shared by fewer and fewer borrowers who, because of declining land values and inadequate cash flows, are trapped in the FCS.

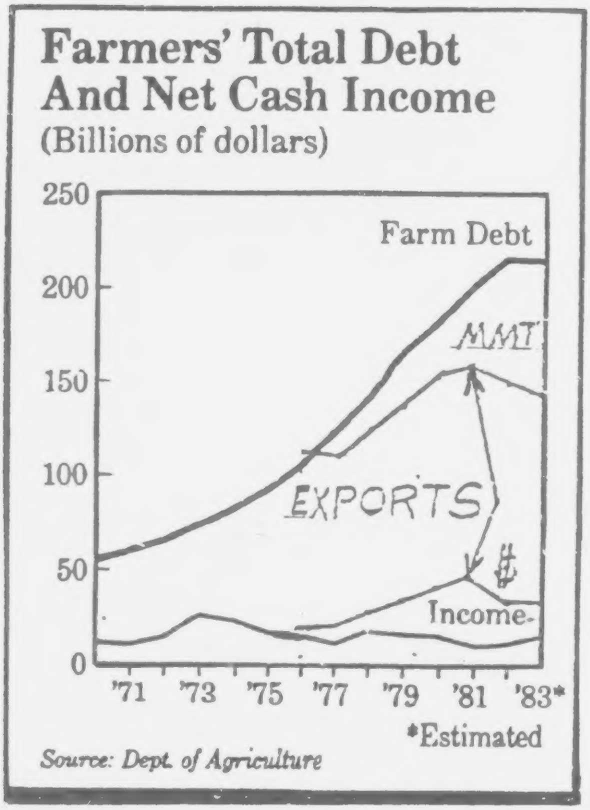
It is inconceivable that those in top management could not have foreseen the outcome of such a policy. Such coast-to-coast mismanagement could not be just a coincidence. A first year accounting major with an understanding of the farm economy could have predicted the disastrous result of this policy. Senator David Boren (D-OK) in a recent Senate speech gave the salary range of FCS chief executive officers as being from $146,000 to $233,000, more than double what they were paid in 1980, all of which suggests that incompetence has its price.

It was not lack of foresight that caused the demise of the FCS, but the carrying out of policies set forth at the highest level of the FCS in Washington, D.C. The clincher to me is the fact that no lender who plans to stay in business would treat its customers in such a cold and callous manner as has the FCS. The image of FCS is so tarnished that should it survive, in the future potential borrowers will stay away in droves. Since the FCS as we once knew it is now a terminal case, I would like to voice my strongest support for passage of the Farm Credit Partnership Act which is contained in the Congressional Record (No. 157-Part II) dated Thursday, November 14, 1985. This proposed legislation contains provisions for 1) an interest buy-down of up to 5%, 2) a Farm Credit Loan Principal Reduction of up to 30%, and 3) the creation of a Capital Corporation within the FCS which could take over problem loans not made whole by the first two provisions. The farmer-borrower after operating the land for three years under a lease agreement would have the first option to repurchase the land at the then market value.

The 1985 Farm Bill (just passed) is a giant step backward away from profitability for farmers. The rationale behind this more market oriented farm bill is flawed in that it assumes that an increase in exports will result in profit for producers. I have here a chart from the Wall Street Journal which shows farmers' total debt and net cash income for the years 1970 through 1983. I have drawn on this same chart two other lines which represent farm exports in dollars ($) and in million metric tons (MMT) for the years 1976 through 1983. This picture tells the story in a very dramatic way—farm debt has more than quadrupled, net cash income has remained flat, while farm exports have set records for more than ten (10) consecutive years thru 1981. Exports alone are not the answer. The way to have the best of both worlds, that is, profits to producers and highly competitive prices in the export market, is through a two-price system. This system would allow us to sell to the U.S. market at parity prices and to the export market at world prices. This of course would have to be supported by appropriate import restrictions.

In conclusion, the new farm bill offers farmers less hope when more hope is needed. We will see more farm families ripped apart as financial failures increase. It is ironic that this could occur under the nose of a President who campaigned as the pro-family candidate. We have already seen too many good men take their own lives as all their hopes and dreams vanished in a sea of red ink. Red ink caused primarily by record high, real interest rates. A deliberate policy of the Federal Reserve in concert with this administration. Our grandchildren will not out-live the consequences of this treason.

In recent days we have seen this farmer frustration and despair express itself in a still more violent way as three others were killed before the farmer turned the gun on himself. I cannot say what the future holds for us. I can only compare our position to that of our forefathers who more than 200 years ago could not get justice from their government in Britain. The difference between then and now is mainly geographical!



Farmers' Total Debt And Net Cash Income

(Billions of dollars)

*Estimated

Source: Dept. of Agriculture

Chairman HUBBARD. Thank you very much, Dick Dickinson.

Bill Hale, let us hear from the lending side of the table. Bill Hale, president of the Exchange Bank of Mayfield.

STATEMENT OF W. L. HALE III, PRESIDENT, THE EXCHANGE BANK OF MAYFIELD, KY

Mr. HALE. Thank you, Mr. Chairman. I appreciate the opportunity to come and make remarks today. I appreciate your having this field hearing here in our community.

I would like to begin by citing a few statistics, and I emphasize "few statistics", to illustrate what agriculture means to our county, Graves County, and also to our area.

Let me say that these numbers and evaluations really do not come out of my head. They come from talking with our local agricultural experts, some of which are State statistics presented by the Department of Agriculture.

First of all, I am told that Graves County is the largest roll crop county in the State of Kentucky, with total agricultural sales of about $65 million to $70 million. I also understand that the Purchase Area, as a general region, accounts for about 54 percent of the corn; 73 percent of the wheat; and 82 percent of the soybeans grown in the State of Kentucky; and that tobacco accounts for about $30 million in sales in this area.

So as you can see, agriculture is one of the prime factors in the economic health of our community and our area. The effects of the troubled farm economy are felt not only by the farmers but the farm lenders, the retailers and an array of other businesses. I am sure you are aware of all these things.

Like many other parts of the country, we have seen the farm economy decline drastically over the past few years. Now we hear that the assessment in our area of livestock operations, for instance, is that they have been reduced to the point to where they are now described as almost gone. In grains, based on 1984 production figures, Graves County alone lost sales due to the drop in prices over the last 2 years as follows: on wheat, $1.7 million; beans $4.7 million; and corn $2.6 million. The total is about $9 million that this county has lost in sales due to price decline over the past couple of years.

Net farm income here over the last 6 years has declined between 20 and 50 percent, depending upon which criteria that you choose to use, whether you use inflation adjusted dollars or not and some other things that figure into that, according to some estimates.

Farm land values, and you have heard this several times today, have fallen roughly 50 percent over the past few years. It seems at present there is some stability in farm prices, but there is a possibility that there is going to be further declines if more land is forced on the market by foreclosures or by the sale of land that has been taken in by farm lenders that they have not put on the market yet. If a large amount of acreage comes on the market in that manner, that is going to depress prices a little bit further.

Recently I have talked with experts locally to form an overall view of the condition of our farm operations and this is what I hear. The consensus seems to be that about 25 percent of the farms in this county are on a very sound, stable footing, and barring some absolute disaster have a pretty good future. There are about 25 percent that might be described as being in good position, but not without some problems or potential problems. There is another 25 percent or so that are marginal. These have a chance to survive, but they probably cannot withstand a severe setback such as a drastic crop failure or some other event that might happen. That would probably put these farms under. Then there is about 25 percent of the farm operations which are now either in foreclosure or have virtually no hope of surviving. So that kind of gives you a view of the opinion of people locally as to the general farm situation.

On a national level we see that the picture is much the same. This decade real net farm income, or net cash farm income, has averaged 22 percent lower than in the 1970's. Net farm income is the lowest since the Great Depression. Land values on a nationwide basis are down 40 to 50 percent, depending on the locality.

I might quote something that was said to me a couple of days ago by a gentleman who is very closely connected with the tobacco business. He said this after one of the recent sales in which the prices were disappointing, to say the least. He said:

> I do not know if you believe in reincarnation or not, but if you do and you think maybe this is your third or fourth time around, thank your lucky stars you did not come back as a farmer.

I have the utmost respect and admiration for farmers. It is quite sad when that kind of comment can be applied to their situation.

I would like to turn now briefly to some proposals which might impact farm credit problems. Although I drafted these remarks for the originally-scheduled November 22 hearing and before the farm legislation was passed, I am going to go ahead and make these comments for future legislation. It really is a repeat of a lot of things that have been said today.

Chairman HUBBARD. Could I interrupt you just a second?

Mr. HALE. Certainly.

Chairman HUBBARD. I wish that date and that hearing had been mentioned before now. The reason that hearing was postponed is because we had rollcall votes on the tax bill and the budget bill that my colleague here and my friend, Stan Parris, simply could not miss to come to Mayfield, KY. I am very fortunate to get him to Mayfield, KY on December 20 when the House met last night to 1 a.m. I missed four rollcall votes last night in order to be here on time this morning so this second hearing would not have to be postponed. In fact Kentucky Flying Service had said last night late that they did not think that their planes could fly from Louisville to Mayfield because of the weather. Anyway, I regret that November 22 hearing had to be postponed. But it is a shame we had to postpone, but this hearing will be helpful, hopefully, toward President Reagan's determining whether to sign that farm bill. And some of you do not like the farm bill. I am aware of that. And you would not care if he did veto it. I am hearing that.

But let me assure you, most Members of Congress think that we have taken care of the farmers, and we have passed a big farm bill. That bill did take precedent over a lot of others that could have been brought up. But I am aware it still is not what you, many of you, want.

Forgive me for interrupting you, Bill Hale.

Mr. HALE. Certainly. These remarks are a bit out of date since there is a farm bill that has been passed. But at any rate, at the time that I drafted these comments there did not seem to be any single proposal advanced in response to the farm debt problems that had any major degree of consensus. All proposals that were on the table had serious limitations. And I think it is important to keep in mind that sometimes proposals are put forward in good faith, that if they are implemented can actually make the situation worse instead of better and that quick fixes that have a longterm beneficial effect are a little bit hard to come by.

It seems that we need to keep our attention directed to larger overall problems, such as budget deficits, the over-valued dollar, our export policies and other things that can lead to real progress with the farm problems in a long lasting manner; while at the same time taking some short term steps that are considered to have a probability of relieving some of the pain of the unmanageable farm debt at present. That is why general farm legislation and the price and income supports are very relevant issues. And I would like to make a comment there.

In talking with people here locally and in reading articles in national publications, reading articles in national banking journals written by farm experts, there seem to be three things that I would like to propose that seem to have merit. First of all, price supports should be continued and at the same approximate levels that we currently have. The point here is to provide stability for farm income. It is to avoid jerking the rug out from under farm income so that farmers who have a chance to make it suddenly are not faced with an awful situation that pulls them under before they have a chance to ride out the storm.

Another suggestion would be to continue the set-aside program in some form. And the thrust of this is to limit production. I am not sure if I heard earlier today that the set-aside program was really looked upon in some disfavor. I am not really sure what reaction I was hearing. But there is some strong opinion among some farm experts that some type of set-aside can be beneficial, at least for the short run.

Third, and a more long range solution, is that a policy should be pursued which helps develop our exports in foreign markets. Obviously over the long pull we have to look to market demand and supply forces to sustain the farm economy, because Government supports of income are perhaps too costly to sustain over an extended period of time. So you have to get back to market basics. And sometimes some temporary programs can distort the basic forces that have to be allowed to work in order to have an efficient agricultural economy.

And if you would permit me, just briefly, to speak as a banker and speak for my industry. And I really say this, Mr. McBride touched on this in his testimony, I say this more for the bankers in States like Iowa and Nebraska than I do for banks around here, although I was told about 2 or 3 weeks ago by a banker in your district that he is going to write off about three quarters of a million dollars in farm related debt this year. But the bankers in some States like Iowa and Nebraska have hung with the farmer. They are in small communities. The farm economy is all they have. They have gone the last mile with the farmer, and the price they paid is that the bank has failed. I really say this in relation to banks like that particularly. Commerical agricultural banks are the largest suppliers of operating credit on a nationwide basis. They have about $40 million worth of production credit outstanding. They have more than all non-Federal sources combined. The point I am trying to make is that when you are discussing a bailout of the Farm Credit System, I would hope that you would keep in mind these agricultural banks that have done a lot for the farmer and gone a long way with the farmer; these banks are certainly deserving of some consideration, as well as the Farm Credit System, for assistance from the Government.

In summary, it seems to me that the price and income supports are the best way, at the moment, to assist financially stressed farmers. By taking additional steps along the lines that I have suggested and by considering other options, perhaps we can prevent another tier of farmers from slipping into insolvency. This concludes my remarks. Thank you very much.

[The prepared statement of Mr. Hale follows:]

PREPARED STATEMENT OF W.L. HALE III, PRESIDENT, THE EXCHANGE BANK, MAYFIELD, KY

Let me begin by expressing my appreciation to Chairman Hubbard and other members of the oversight subcommittee for conducting this field hearing in our community and thereby coming out from Washington to learn about agricultural problems first-hand in a locale such as ours where they are all too real. We appreciate your concern.

To illustrate what agriculture means to our county, Graves County, and our area please let me cite a few statistics. Graves County is the largest row crop county in the state of Kentucky with total agricultural sales of approximately $65-70 million. The Purchase Area accounts for 54% of the corn, 73% of the wheat and 82% of the soybeans grown in the state while tobacco accounts for roughly $30 million in sales. As you can see, agriculture is one of the *prime* factors in the economic health of our community and those around us, and the effect of the troubled farm economy is felt not only by the farmers but also by farm lenders, retailers, and a vast array of other businesses.

Like many other parts of the nation we have seen our farm economy decline dramatically over the past few years. Livestock operations have been reduced drastically and are now described by some people as "almost gone". In grains, based on 1984 production figures, Graves County lost sales due to the drop in prices over the last two years as follows: wheat—1.7 million dollars; beans—4.7 million dollars; and corn—2.6 million dollars. This is a total of about 9 million dollars in sales lost due to price decline. Net farm income here over the last six years has declined from 20% to 50% depending upon which criteria or yardstick one chooses to use (such as inflation adjusted dollars or not) according to some estimates.

Farmland values have fallen roughly 50% over the past few years. Presently, there appears to be some stability in land prices, but there is a possibility that further declines may occur if more land is forced on the market by additional farm failures.

Recently I have talked with agricultural experts locally in an effort to form an overall view of the condition of our farm operations. The consensus of opinion seems to be that about 25% of the farms in this county and area are on very sound, stable footing; about 25% are in what might be described as good condition but not without some problems or potential problems; another 25% or so are marginal and probably could not withstand any severe setback such as a crop failure due to drought; the final 25% of our farm operations are estimated to be either already in foreclosure or have virtually no hope of surviving.

On the national level we find that the picture is much the same as it is in our area. So far in this decade real net cash farm income has averaged 22% lower than in the 1970's, and total net farm income has averaged the lowest since the Great Depression. Land value declines vary among states but in states such as Iowa are off more than 45%.

I would like to turn now to proposals which might positively impact current farm and farm credit problems, and I realize this is a very complex subject.

To my knowledge, no single proposal has been advanced in response to the farm debt problem on which there is any major degree of consensus. All proposals have serious limitations, and it is necessary to keep in mind that a proposal put forward in good faith may; if implemented, make the situation worse rather than better. "Quick fixes" that truly help are hard to come by.

That is why we somehow must keep attention directed to the overall problems of budget deficits, the overvalued dollar, export policies, and others that can lead to real progress with the farm problem—at the same time that short-term steps are considered to relieve some of the pain of unmanageable farm debt.

That is also why the general farm legislation, and the price and income supports in the farm bill, are very relevant to the debt problems. At least, the income supports are *generic* in their application and tend to strengthen farm financial accounts across the board.

In talking with others here locally and in reading the opinions of national experts there seem to be three proposals that have some merit for your consideration. First of all price supports, as mentioned earlier, should be continued and at the same approximate levels that we currently have. This would provide an element of stability for farm income which is badly needed. Another suggestion would be to continue the set aside program in some form. Thirdly, and this is a longer-range more permanent solution, policies should be pursued which help develop our export or foreign markets. Obviously, over the long pull we have to look to market demand and market forces to sustain the farm economy, because government supports of farm income are too costly to sustain. They also distort the basic market forces that are essential for an efficient agricultural economy.

If you will permit me to speak as a banker for a moment, I would like to comment on proposals being put forward to provide Federal assistance to the Farm Credit System. I comment here from a national point of view. Commercial agricultural banks are the largest suppliers of operating credit to farmers nationwide, with about $40 billion of production credit, more than all other non-Federal sources combined. The point I would like to make is that commercial agriculture banks and their farms borrowers should be provided equal access with the Farm Credit System to any Federal assistance that might be forthcoming. This is important to banks not only in this area but especially in states such as Iowa, Nebraska and Kansas. In summary, it seems to me that the price and income supports in the general farm bill are the best way at the moment to assist financially - stressed farmers.

By taking some additional steps along the lines suggested and by considering other options, yet another tier of farmers might be prevented from slipping into insolvency. This concludes my prepared statement, Mr. Chairman.

Chairman HUBBARD. Thank you very much, Bill Hale, for your excellent remarks. Let us hear from another farmer. How about Jimmy Rogers again. Jimmy Rogers from Trigg County, Cadiz.

STATEMENT OF JIMMY L. ROGERS, CADIZ, KY

Mr. ROGERS. As I said before, Congressman Hubbard, the testimony that I am about to make about farming is one that affects me daily in the small farming operation that we have at home.

I have found that it takes an enormous amount of money to farm and you get only a small return for your investment. In order for a farmer to produce a small amount of tobacco, grain or livestock, his investment in land, equipment, fences, fertilizer, seeds, buildings, and ponds is enormous. Yet all these things are essential for production. The amount of money the farmer gets from his product is very little compared to the amount he has to invest.

Corn prices have been in the $2 range for years. Cattle prices are variable, although most of the time they are low. Soybean prices started off good but over the past few years have declined sharply. Tobacco prices have risen somewhat. But if any product that the farmer raises excels in price, so do the things that are essential to produce that product.

Plant bed materials, seeds, insecticides, pesticides, fuel, oil, and labor—most of these expenses are also essential to produce other things on the farm that are not so profitable. Yet, the costs are still prevalent.

I think tobacco is the only crop on the farm at the present time that a small farmer in my position can show a little profit. I think this is because of Government tobacco price supports. It would be good if other crops were as profitable as tobacco at this present time or have been over the last 2 or 3 years. But we also see a large increase in tobacco that is being sent to the pool, and that is not good.

Chairman HUBBARD. To where?

Mr. ROGERS. To the pool.

Chairman HUBBARD. OK.

Mr. ROGERS. Foreign producers have dimmed the tobacco industry here. People have become aware of health problems because of smoking. The projected outlook on tobacco does not look good. Another problem the farmer encounters is that we have no alternative crop to take the place of tobacco.

Another problem that we face is money and credit. Obtaining credit for fertilizer, seed, pesticide, and insecticides used to be one of the local trades at the stores—the local Southern States dealer or anyone who had farm equipment where you could obtain credit—These are things in the past as of now. No one offers that credit now. You used to go to your local supplier; You did not have to go to a bank, you did not have to go to a loan institution or PCA. Out of good will, they would let you have the amount of fertilizer, pesticides, whatever you needed to produce your crop and pay them back at the end of the year without any interest. These things are a thing of the past.

The bank lends money but on a short-term basis. PCA makes loans to help farmers also, but they are at higher interest rates. Your collateral is not as strict. Now, when I started borrowing money from PCA, they just ran a credit reference on you. Now of course, you know, the paperwork is more. You have balance sheets, your assets, liabilities, and everything. The paperwork load gets a little bit heavier.

Also the Farmers Home Administration has a long-term interest rate. Now I think they have stopped lending money directly and guaranteeing the loans for farmers from the bank. I also served on the committee of the Farmers Home Administration in Princeton, and we have farmers who have been in, have had foreclosures and are in trouble. I do not really think that additional loans would help the situation at all.

I really think, in conclusion, the only solution to our problem is to get more money for what we produce, even if it means producing less. Thank you.

[The prepared statement of Mr. Rogers follows:]

PREPARED STATEMENT OF JIMMY L. ROGERS, CADIZ, KY

The statement that I am going to make about farming is one that affects me as a farmer daily. I have found that it takes an enormous amount of money to farm, and you get a small return for your investment. In order for a farmer to produce a small amount of tobacco, grain or livestock, his investment in land, equipment, fences, fertilizer, seeds, buildings, and ponds is enormous. Yet all these things are essential for production. The amount of money the farmer gets from his products is very little compared to the amount he has to invest. Corn prices have been in the two-dollar range for years. Cattle prices are variable, but most of the time they are low. Soybean prices started off good, but over the past few years have declined sharply. Tobacco prices have risen somewhat, but if any product that the farmer raises excels in price, so do the things that are essential to produce that product.

Plantbed materials, seeds, insecticides, pesticides, fuel, oil and labor; most of these expenses are also essential to produce other things on the farm that do not pay as much as tobacco, yet cost is still prevalent. I think tobacco is the only crop on the farm at the present time with which a small farmer can profit a little. I think this is because of government price support. It would be good if the other crops were as profitable as tobacco is at this present time or has been the last three or four years. But, we also see a large increase in tobacco being sent to the pool, and that does not look good. Foreign producers have dimmed the tobacco industry here. People have become aware of health problems because of smoking. The projected outlook on tobacco does not look good. Another problem the farmer encounters is that we have no alternative crop to take the place of tobacco.

Another problem that we face is money and credit. Obtaining credit for fertilizer, seed, pesticides, and insecticides at local suppliers is almost a thing of the past. They do not want to charge anything any longer than 30 days. Recently, you could obtain credit until you sold your crops at no additional charge. When this happens you have to have an alternative source. The bank only wants to handle short-term loans and really does not want to take a crop for sufficient collateral to make a loan. PCA makes loans to help farmers using crops, livestock and machinery as collateral but the interest is higher. Farmers Home Administration has a low long-term rate, if you can obtain the loan by the time you need it. Declining farm prices and low profit production do not make borrowing money any easier. Borrowing money to produce crops that are not making enough profit does not pay any principal or interest. We borrow money hoping that another year's crop prices will be better. This has not happened yet.

In conclusion, I think the only solution to our problem is to get more money for what we produce even if it means producing less.

Chairman **Hubbard**. Thank you very much, Jimmy Rogers. Yours was an excellent statement. Be assured during the 11 years I have been your Congressman, we have had an annual battle on tobacco price supports. There is a group of Congressmen who would eliminate price supports for the tobacco program, who would do all they could to increase taxes on cigarettes. But we have won those battles every single year. It is interesting to hear you say that as far as you are concerned, tobacco is about the only crop on which you can make a small profit. But be assured we will do everything we can to continue to retain the tobacco price support program and to keep taxes on cigarettes at a minimum. Although they will remain at 16 cents per pack, be assured that most people who smoke will continue to buy cigarettes. If the Federal Government had reduced the taxes from 16 cents to 8 cents, Kentucky itself would have been one of the States that would have come along and added a State tax on cigarettes. We are just fortunate to keep it there at 16 cents at the present time, because of the State legislatures that want extra money through cigarette taxes of their own in case the Federal Government taxes were reduced.

Victor Powell, we appreciate your being over here from Benton, KY. He is vice president of the Bank of Benton. What about Marshall County farm economy as you see it from your standpoint on the lending side at the Bank of Benton?

STATEMENT OF VICTOR R. POWELL, EXECUTIVE VICE PRESIDENT, BANK OF BENTON, KY

Mr. **Powell**. Marshall County farmers probably are a little more diversified than some of the other areas that we have heard some testimony from this date. I appreciate the invitation to visit with you in this hearing and give some points. I am certainly not going to be redundant and go over and over the things that have been said.

The problem has been well identified. Certain solutions have been proposed. Personally I favor a totally free enterprise system. And that is what we all say. I do not know that we live that, however. I am certainly aware that our Government has been very much involved in the agricultural economy and systems; and probably at this point cannot get out of it.

I would like to offer three suggestions that I think might be worthy of your and your colleagues' consideration. The farm bill has been passed. We are going to live with it, and I agree that it is not what we needed. I would like to see as our Government continues to be involved in our economy, that we look at a land retirement and reclamation program. We must reduce production to where we meet demand. There is no other solution. You cannot produce four times as many automobiles as you can sell, our Government subsidize those companies and make the price artificially high. You cannot do that over the long run. Supply and demand will eventually catch up with you.

I would like to see a land retirement program that would include prime production land. We can reduce our production of acreage, and as was stated earlier, the wheat fields will be retired from production. We must reduce production on our land that produces 200 or 250 bushels per acre of corn. That land should be addressed, not just the marginal land. And I am not so sure that maybe even our Government might acquire this land. It might do a twofold purpose. If our Government took title to the land and retired it from production, they would have a ready source that is on the market and available, land that is in the inventory of the Farm Credit System. And that is a problem that you and others have been wrestling with. Do we sell it now? Can we market it? It further depresses prices. Maybe that is land that our Government could acquire and hold like they hold our national forest land, and they hold millions of acres of it.

Farmers need a marketing assistance program. I do not have the mechanism to suggest to you today how to do it, but there is something wrong with a system that will reduce the price of a commodity during a 60-day period of time. I have been involved in farming all of my life. Every fall when we sell corn, the price is down 2 to 20 percent. Every spring when we sell strawberries during the peak season, the price is down 2 to 20 percent. We need some help in the marketing assistance program. The farmers themselves cannot do it, because they do not have an organization that can handle it. We are at the mercy of the large corporate grain elevator companies and exporters. I am well aware that the costs of handling, storage and transportation require large organization

The third thing that I would suggest to you today is that the commodities that the Government has purchased and is continuing to purchase, whether they should or should not, could be sold rather than given away. And I know I am not going to be a very popular fellow when the meeting is over around this part of the country. But I personally have been involved in commodity distribution programs, and I have stood and watched the lines of people who are picking up the cheese, the milk products, the honey, and the other commodities that are being given away and counting the ones in line that have big CD's in my bank. Let us sell those products and put that money into a revolving fund, because they are going to make their way to the consumer's table. If you give them away and the people do not like honey, they are going to give it to their neighbor. They cannot sell it, but they will give it away. So it is going to be on the consumer's table regardless. Sell that produce, put that money into a revolving fund to use in your subsidy program or whatever the Government is going to do with their farm bill.

One final item. As I said, I have been involved in farming all of my life. In 1985 I brought with me, which I will give a copy to any of you who would like it, a copy of the D&R Farm operation for 1985. The sum total is that we had sales of $28,553 and we had expenses of $31,783.41; for a net cash loss of $3,230.08, and that does not include any depreciation. That is simply cash sales and cash expenses. D&R Farms is Victor Powell. Thank you.

[The following letter with attached notes was received from Mr. Powell for inclusion in the record:]

The Bank of Benton,
Benton, KY, December 20, 1985.

Hon. Carroll Hubbard,
Congressman, B-304 Rayburn Building, Washington, DC

It is my philosophy that our agricultural industry should be allowed to operate under a free enterprise system. I am basically opposed to governmental intervention in any business. I would propose that our Government phase out support prices and/or other controls in the agricultural segment of our economy.

Due to past interventions and present conditions, there should be a four to six year program to get government out of agriculture. Since the problems facing agriculture right now cannot be solved without reducing production and meeting present demand, I offer three suggestions as an aid to our farm problem:

1. A land retirement program. I propose our U.S. Government acquire and remove from production prime ag farmland. I would suggest acquisition be first from the inventory held by FmHA, Federal Land Banks, and Production Credit Association. Additional acquisition should be made from future foreclosures by the Farm Credit System as well as other financial organizations. These properties being from "bad" loans, the financial organizations should take their loss on them, and the Government could then acquire them at a reasonable price. I can see some advantages to our Government holding farm land in a national reserve as they do our national forestry land. I also at this time would favor a direct incentive to present land owners to retire marginal land from production and maintain cover crops, forestry production, or other soil conserving techniques.

2. I recommend consideration being given to a marketing program that would prevent the limited markets from reducing prices during the time of harvest. As you are well aware, the large grain corporations and limited markets for other products set prices to be at their lowest during the times that farmers must market products.

3. The present commodities held in storage by our government agencies and future acquisitions under any support price program should be marketed, even at a reduced price level. The dairy products and other commodities presently being given away under our distribution programs are finding their way to the consumer tables of this country, and the food products are being given free of charge to many families that could well afford to purchase the same items.

I believe the farm credit agencies made their beds and now are entitled to lie in them. The bailout of the farm credit lenders has not and will not aid the farmers, but rather the wealthy investors who have purchased their bonds. The Farmers Home Administration needs to be out of lending, as the "bureaucrats" are not loan officers, but paper shuffling clerks. Albeit much of that is caused by regulations as many of them could be good loan officers given the freedom and opportunity.

I certainly realize these comments do not hold the key to the farmers' income problems, but may be of some aid to you and the other Members of Congress trying to arrive at a solution.

Victor R. Powell,
Executive Vice President.

Additional Notes Submitted for the Record by Victor Powell

My personal philosophy and goal would be for farmers to operate in a totally free enterprise system, whether large corporate entities or small family farms. My philosophy also opposes Government subsidies or support prices. I am aware, however, of past Government intervention and realize that an abrupt cutoff of its activities would be a total disaster for a great segment of our economy. It will be necessary for subsidies or support programs to be phased out over a period of time, and I would propose a 5–6 year program. There are three (3) areas that I think should be utilized in conjunction with a phase-out program.

1. A land reclination and retirement program. This would function with our other U.S. land holdings. I would also propose direct purchases of prime farmland. This would be retiring the most productive land and have the greatest effect on crop production. These acquisitions would be from distressed farms or foreclosed properties and would minimize the effect on the viable farmers and reduce production. A second approach in addition to retirement of the prime farmland would be an incen-

tive to present land owners to remove marginal land from crop production, which could be in the form of direct payments with a required time frame to maintain the marginal land in cover crops, forestry products, or other soil conserving situations. This cost should be substantially less than the land acquisition. A 6-year program is desirable with payments per acre set by the local ASCS.

2. I would propose a marketing assistance program that I cannot define. However, I think the problem itself outlines the solution. The problem is a reduced price paid to the farmers during the time of peek production. I am well aware that the handling and marketing of crop production, feed grain and other products requires large amounts of capital for handling, storage, and transportation. This in itself limits the number of marketing opportunities available. Having followed marketing prices for a number of years, farmers, politicians, bankers and other interested persons have certainly noted the decrease in the price of corn, feed grains and cattle at market time. It is quite evident that the buyers routinely reduce the price during those periods and at the conclusion of harvest, prices will increase 2-20%.

Whether the marketing assistance could be in conjunction with the existing buyers or other private enterprise or cooperative programs or a new agency to promote local markets remains unknown.

3. A better system of compilation and distribution needs to be devolved for accurate and timely production and marketing reports. This could be accomplished through existing agencies with little additional expenditures.

The second interest of this meeting is apparently the problem of agricultural lenders. This includes some commercial banks. My early teaching from my father was "You made your own bed, now lie in it", and ag lenders should abide by that policy. But again that policy must be tempered with some compassion for those who are affected other than the lenders themselves. I suggest assistance could be made to the ag lenders that are experiencing serious difficulties by purchasing their existing land inventory and selected future foreclosures. This would dovetail with the land reclamation and retirement proposal, relieve the lenders, and prevent additional distress to the remaining viable farm operations.

I also recognize that some governmental guarantee of agency bonds is needed at this time. In conjunction with this, I would required that they "clean up their act." It requires a change in management, regulations and philosophy.

I would insure that future ag lending practices are on a sound basis from a commercial lending standpoint, and I would eliminate the bureaucratic organizations that look at "paper work" prepared to obtain additional loans, rather than good loan officers who make "hands on" sound judgment decisions.

Regarding a source of funding for implementing the present commitments of Congress and/or implementation of this or other actions, I have two (2) suggestions.

1. Reduce the amount of direct foreign aid to other countries, using the funds for farmer programs and making all foreign aid contributions in the form of agricultural products. Even this amount should be reduced by 50% from our present level of 15-18 billion dollars.

2. The present commodities acquired by our Government under previous farm price support programs should be sold rather than given away in the commodity program. Some revenue from the sale of these products could be generated and would have no more depressing effect on the supply and demand function than the outright gift of these commodities. The milk products, butter, cheese, honey and other items are presently finding their way into the consumer tables with no revenue being generated.

I have personally observed the lines of people receiving commodities through our present distribution program, and most are able to purchase that same merchandise in out free enterprise system.

Chairman HUBBARD. Thank you, Victor Powell. I find that interesting that you did propose as your No. 1 suggestion that the Federal Government buy the land of farmers who are so deep in debt to the Farm Credit System that they cannot get out and that would enable the Federal Government to own the land and no crops would be produced on that land.

Mr. POWELL. Correct.

Chairman HUBBARD. Do you really believe the Federal Government can afford to do that? Under our $2.1 trillion debt at the present time.

Mr. POWELL. I do not think the Federal Government can afford to do a lot of things it has been doing, quite frankly. I am not suggesting that they can buy enough land to reduce production to or to bring the supply of produce to the demand function at this point. But it could make an effort. What I am saying is, take the money that you are going to bail out the Farm Credit System with and buy land with that money. Take the land out of inventory of the farm credit banks instead of giving them money and letting them go ahead with foreclosures and putting land on the market.

Chairman HUBBARD. Would you do me a favor and write me a letter proposing that and let me put it in the hands of certain key House and Senate Members who serve on the Agriculture Committees? Who serve on the Appropriations Committees? Who serve on the Budget Committees?

Mr. POWELL. Yes, sir.

Chairman HUBBARD. Thank you.

Mr. PETTIT. Would it be out of order to interject here?

Chairman HUBBARD. No; of course not.

Mr. PETTIT. Well, in the State of Kentucky the Farmers Home Administration has 140,000 acres in inventory.

Chairman HUBBARD. Excuse me, let the record show that George Pettit is speaking.

Mr. PETTIT. This land is already held by the Government. In the State of Missouri there are almost 200,000 acres in inventory. That FmHA land is already held by the Federal Government. And Lord knows how much more you are going to get in the next 18 months. So there is a tremendous amount of land already being held in inventory by the Federal Government on farmers that have liquidated. They have 1,478 acres of my ground, that is a pretty good little chunk of ground right there in three counties.

Mr. POWELL. Is it in production?

Mr. PETTIT. It is today, and it is pretty good row crop land. It averaged about 168 bushel per acre of corn this year, what corn was on it, and over 50 bushel of beans per acre by the farmers that were farming it. I think that you already have a head start on that. That would not impact the budget because you have already written me off, and let me tell you, you took a blood bath on my little program. That loss has already been accounted for. So I think, you know, you do have a head start on that. You are going to have to hold this land for future generations. We are being forced to farm land out here in this Nation today that absolutely does not need to be farmed. It is strictly economic. It is economic pressure on these people, forcing them to go out and do things they know better not to do. But they do not have a choice. But which would you rather have, a wornout farm that you might be able to own or one that is in a top state of cultivation that somebody else is going to own? So I think it boils down to that, and we are going to have to address this.

Chairman HUBBARD. I thank you for your views. One of the last things I did last night in Washington was sign a letter to Victor Powell. Vic had written me regarding legislation and I was answering his letter, which you will get tomorrow maybe, Monday probably. I do appreciate your views here and also those of you who write. One of the most frequent contacts I have from farmers is

Thomas Larkins of Hickman County. He has come to Washington in the last 2 years how many times?

Mr. LARKINS. Not enough.

Chairman HUBBARD. That is a right good answer. About four or five times he has been to Washington to lobby. I cosponsored the Harkin bill at his request and that of Firman Cook of Princeton, Gordon Samples of Hickman County, Thomas Larry Wilson of Carlisle County and some more. But that did not end up the way the bill is in its final draft.

Supporters of farming did vote for that bill on final passage. It is not what we should have, not what you want. But Congressman Bill Emerson of Missouri, our neighbor over here who represents Sikeston, Charleston, and Cape Girardeau, voted for it; Congressman Ed Jones who represents Union City, Dyersburg, Martin, and Jackson, TN, voted for it. He is a member of the House Agriculture Committee. Congressman Larry Hopkins, our Kentuckian from Wingo originally and now of Lexington, voted for it.

Let us hear from you now, Thomas Larkins. This panel will be finished in about 10 minutes, and then we will have the final panel. Steve Story; Wayne McAtee; Don Frick; R.O. Wilson; Austin Voorhees; Harold Rice; Ray Schlader; Dave Hornback, and Charles Magness. That is the last group of those who have been contacted or who have contacted us, wanting to testify at this hearing. But those of you who still are here and have not had a chance to say your comments will certainly be given that opportunity. But I did want Steve Story; Wayne McAtee; Don Frick; Charles Magness; R.O. Wilson; Austin Voorhees; Harold Rice; Ray Schlader; and Dave Hornback, to know that you are about 10 minutes away from having your chance here at the witness table. Thomas Larkins.

STATEMENT OF THOMAS LARKINS, CLINTON, KY

Mr. LARKINS. Thank you, Mr. Hubbard, for the opportunity to come here. I think this so far has been a meaningful meeting.

I have a prepared statement here that you already have a copy of. I wanted to read some of it and make a public record here today.

Chairman HUBBARD. All of the prepared remarks will appear in the record. That is true of each of you. If you turn in your records, your prepared remarks are the ones we will include in the record, and we will give that to our stenographer, our reporter, who is with us from Cincinnati, OH—Gary Baldwin. The reporter who is patiently taking all this in, without lunch, as the rest of us.

Go ahead, Thomas Larkins.

Mr. LARKINS. My name is Thomas Larkins and I am a farmer from Clinton, KY. I would like to offer the following testimony and comments in regard to the present hardships facing the farmers and lenders alike.

First, let me say that I do not think farmers——

Chairman HUBBARD. Will you forgive me for interrupting you? Mancil Vinson is here, and we would like to hear from you later, I might add. Mancil is a respected expert on agriculture.

Mr. VINSON. Our position has already been represented by Charlie Bennett.

Chairman **Hubbard**. He works with the Independent Bankers of America and is one of the——

Mr. **Vinson**. I have another appointment I have to go to.

Chairman **Hubbard**. You have been very helpful.

Mr. **Vinson**. We appreciate the opportunity, and I speak for our association, I know for many of the people that are here, and we appreciate the opportunity of making these presentations.

Chairman **Hubbard**. Many of you in this room voted for Mancil Vinson for State agriculture commissioner when he ran for that position. You know he is from Murray and a long time with Murray State University. We appreciate your taking time out to be here today.

Mr. **Vinson**. Thank you. We appreciate it very much.

Chairman **Hubbard**. Sorry you have to leave and wish we could hear from you. Thanks for being here. Forgive me, Thomas Larkins.

Mr. **Larkins**. OK. First, let me say that I do not think farmers and lenders are the only ones facing financial hardships. I believe that the small towns, the large cities and the U.S. Government and all of America are, or will be in the near future facing financial hardships.

There are three things a person can do with his business. He can make a profit or he can take a profit or he can go broke. And that includes the Government also. My beliefs are based on mainly two theories. The No. 1 theory is, for every action, there is a reaction. The second theory is, from the Bible Galatians 6 and 7, it says, "Be not deceived; God is not mocked: for whatsoever a man soweth, that shall he also reap." And we are just reaping some of the things that have been sowed in the past. These things that we are talking about today, that seed of destruction was sown years ago. It is mainly due to Government controls, and not for the benefit of the farmers and America, but for special interest groups.

Chairman **Hubbard**. Do you want Government completely out of farming?

Mr. **Larkins**. No, sir. At this time, I do not think the Government can get out of it because they have gotten us in such a big mess that we need their leadership or we need to have true leadership and not that from special interest groups.

Chairman **Hubbard**. The Government has gotten farming in a big mess, but you still want Government to be in it?

Mr. **Larkins**. Well, they got us into it and if they dropped us now, we would all go under, and so would America. I am more concerned right now about America and our problems than I am about my farming operation. I receive quite a few newsletters and reports that state America is in bad financial condition.

Chairman **Hubbard**. I am just having a dialog with you; I am not arguing with you. But how do you say that when the stock market on Wall Street is going through the sky? It is the highest ever and the economy, according to many people, is in good shape. Even President Reagan and the majority of Congressmen were reelected because of the economy being in such "good shape." But the stock market is sky high at the present time.

Mr. **Larkins**. For every action, there is a reaction. A lot of times, people do not see further than the end of their nose, and as Gordon

Samples just said, what happened in 1929? About the stock market and the good times? As far as I am concerned, we are right at that time, according to the way our national debt is growing. And why did the Congress stay over in session the other day? To vote for more money, did they not? I have not received my wheat deficiency check because you all did not have enough money to pay me. So you had to stay over to get that written into the law. We are supposed to get that check before the first of the year.

Chairman HUBBARD. To be honest with you, I voted no on that, too.

Mr. LARKINS. OK. But what would happen had they not increased the debt limit? What would have happened?

Chairman HUBBARD. You finally would have people who say spend, spend, spend, forced to find some place to cut back, like foreign aid or some of the social programs that are so wasteful, and national defense where we have so much abuse of spending. If we would finally have a majority of us voting no on increasing the national debt and extending the debt limit, we would not let the Government stop. We would find ways to cut the deficit. That is why it continues to go up.

When we passed Gramm-Rudman-Hollings the other day, some cheered and said, oh, the Congress is going to balance the budget by 1991. You can laugh at that.

Mr. LARKINS. That makes me laugh.

Chairman HUBBARD. What we were really doing was increasing the national debt from $1.8 trillion to $2.1 trillion. That was the part of the bill they had to get through. Gramm-Rudman-Hollings was just the sweetener with the big cuts starting in 1987. You, who knows politics, knows that 1987 is a good time for Members of Congress to say, let us start being serious about cutting the budget because that gets us through one more election. Next year, when a third of the Senators and all 435 House Members are up for reelection. But it is a sad situation. But we are going off the subject somewhat.

Mr. LARKINS. That is the subject as far as I am concerned. But why did Mr. O'Neill vote for those programs? Why does Chairman Hubbard vote for them? Why does everyone in Washington vote for them? That means your job if you are voting for the man, the people who vote for you. And when you do what is right for America, you may get kicked out of Washington. But we do not have statesmen who vote like they should for America. If we do not have America, all these farm bills and everything else will not help.

You had to vote to increase the debt limits. You will be doing it again pretty quick. In my estimation, for every action there is a reaction. It is snowballing, and it is catching up with Congress. It caught up with us farmers first. I have that in my statements. It caught up with us first. Then, a couple years later, it caught up with the bankers. You see the bankers here today. They were not saying anything 2 to 3 years ago, because they had the mortgages on our land, on our equipment and on our cattle. The last thing I put in my statement was about a letter that I received from the Columbia Federal Land Bank and Production Credit, who wanted to sell me some land if I was a creditworthy buyer. They wanted to sell me some land that they already had in their possession. The land is in North Carolina, South Carolina, Georgia, and Florida. I think the other people in this area got those letters also. Now it has already caught up with those people down there and that did not start last week when they wrote me that letter. That started back years before. For the actions that were committed back in those days.

Let me get on through it. You do not have much time. But I sent you a report that I received, Baxter's report, that gives the conditions of the banks. I gave it to Mary Martha when I was in Washington back in the fall. I think that was one of the first times, I told her, they are just now confessing their sins. Now then, Mr. Reagan comes along and he says now you farm credit people, you get your house in order before I bail you out, talking to the Farm Credit System.

Chairman HUBBARD. Are you talking about Regan or Reagan?

Mr. LARKINS. The President.

Mr. LARKINS. But, as I said in my statement, what are Congress and the President going to do in 2 to 3 years? You are going to be facing the same sins that we farmers faced when we could not pay our debts; what the banks and financial institutions are facing when they are going under, when they are closing their doors or are being incorporated with other banks; and you, if you are still up there and I suppose you will be, within 2 to 3 years—I do not believe it will last 2 years. I think this thing is snowballing. You will have doubled your national debt in 3 years, and if I am not badly wrong, with the programs that you are promoting.

Chairman HUBBARD. Which programs would you cut?

Mr. LARKINS. If you cut them all right now, you would destroy America.

Chairman HUBBARD. Well which programs would you cut?

Mr. LARKINS. You would have to start, first thing— let me put it this way, how do we create wealth here in America? How have we created our wealth here in America? Gordon Samples will be getting into that. Of course he has been working on these things. But someone has to find a commonsense answer. How do we get our wealth?

Chairman HUBBARD. I question you like this because you and I have had several good dialogs and you and I always end up friends. But you have not answered my question. Suppose you are the Congressman. Where do you start cutting this budget? You have not answered my question.

Mr. LARKINS. Well, I will assure you that it would not be easy. Wait just a minute. Gordon wants to answer that one.

Chairman HUBBARD. To be honest with you I think you probably would be a good Congressman.

Mr. LARKINS. All right, let me tell you this, if you people voted for what was right you would not get to vote but once because they would kick you out. We have too many special interest groups, and we ran into them the last time I was in Washington. When one person can come up there representing 450 independent meat packers and have more effect on Senator Jesse Helms than 25 to 40 farmers, that tells me something. That she is pretty well known and she knows how to handle the Congressmen and Senators up there.

Chairman HUBBARD. I do not know whom you are talking about personally, but——

Mr. LARKINS. Well, I did not either but I met up with her that day up there. But anyway, what I am talking about are special interest groups that help some, but are destroying America.

Chairman HUBBARD. Let me cut you off——

Mr. LARKINS. Now let me get——

Chairman HUBBARD. OK, would you finish up now in about 1 minute?

Mr. LARKINS. Let me get down here to the——

Chairman HUBBARD. And I have been unfair to give you so many questions but I like to ask these people who always are criticizing Congress about not reducing the budget, where would you cut it? Just to see what you say.

Mr. LARKINS. Well, I believe in defense, but I would have to cut defense along with some other areas. But getting back to my question that I asked you a while ago, where does our wealth come from? We have to get wealth before we can ever have any budgets. We are not getting any wealth in America, not real wealth. We do not value it like that. So, therefore, we are going to have to take a new look, or you people are, and Gordon will go into that.

Let me just turn on back here to the last, because you have a record of these things. We are here today asking the question of what we are going to do about the farm lending institutions, right? And the farm credit crisis?

All right, is there any doubt in your mind that we are facing a crisis? Is there any doubt in your mind that the farm lending institutions and the farmers are facing a crisis?

Chairman HUBBARD. There is no doubt about that.

Mr. LARKINS. OK. It seemed to me just last year or so that there was doubt. That is why I prepared a lot of this material to show that there was a crisis. There has been a crisis for a number of years.

What would it take to help the farm lending institutions and what would it take to solve their problems? Now Congress voted this week to appropriate about $6 billion or whatever for the Farm Credit System. You voted to help bail the system out. That is just a bandaid, because you bailed out the people who got them in the shape they are in. Start at the root of the problem. Start with the farmers. And how are you going to help the farmers? By making our production profitable.

And as Mr. Owens said a while ago, if you loan a farmer money without any interest, low interest is good but that will not solve the problems. Because as he said, he could not even pay his loans back without any interest. Our main problem is that our production has been controlled by the Government, has it not? Has it not been controlled by the Government?

Chairman HUBBARD. In part.

Mr. LARKINS. Has it not been controlled by the Government?

Chairman HUBBARD. In part.

Mr. LARKINS. And Congress passed a bill the other day that is going to lower that while the other is brought out. And we told you when we were in Washington that the Harkin bill, had you voted everything in that, would immediately turn the commodities around on the Chicago Board of Trade and they would have shot up to the $8 mark on beans; past the $4 market on corn; and past the $5 market on wheat; had you passed that bill. But, instead, you let one special interest group talk you almost into the notion of paying a check for all or paying so much an acre through the soybean association. And that was going to lower price supports. And what did the soybeans do? They lost 40 cents a bushel within about 5 days. I will assure you that if you had adopted the Harkin bill, it would have raised the stock market, and the board of trade market would have gone up. It would have give a farmer an incentive to bargain back for his property, because he could have made the payments by selling the produce that he would have grown on the farm and the Government would not be having to fool with it.

If you do not get the prices of our production up, you are going to double and triple your problems, because they are vast. They are vast. Your problems are vast out here, and we have been saying it for 4 years.

And until farmers started renegging, they did not renege because they wanted to, I will guarantee you. Right? You heard the testimonies. They did not renege because they wanted to. They worked hard. They worked 24 hours a day. But they did not let their land go because they wanted to. They had to because they could not get a price for their production.

Now we have to cut our production back to get that. And some people fought that. Now you call us a special interest group if you want to, those who are speaking for higher prices. But what helps a farmer will also help the community, my small town there at Clinton with its doors are barred up. Over across to Missouri, they spent revenue sharing money on those streets, on those buildings. They are boarded up. Why? Not because the Government did not put money in there, but because they took our profit from us when we farmed to make a bushel of corn or a cow or hog or whatnot.

PREPARED STATEMENT OF THOMAS LARKINS

Mr. Hubbard, Mr. Parris and members of the Subcommittee, my name is Thomas Larkins. I'm a farmer from Clinton, Ky. I would like to offer the following testimony and comments in regard to the present hardships facing farmers and lenders alike.

First, let me say I don't think farmers and lenders are the only ones facing hardships. I believe small towns, large cities, the U.S. government and all America is or will be in the near future facing financial hardship.

There are three things a person can do with his business. One, make a profit; two, take a profit; or three, go broke.

My beliefs are based mainly on two theories. Number one, for every action there is a reaction; and number two, the Bible says, in Galatians 6:7, "Be not deceived; God is not mocked; for whatsoever a man soweth that shall be also reap.

Now the problem we are dealing with didn't start last month or last year. The seed of financial hardship facing farmers and others was planted many years ago and that seed was the government control, not for the benefit of farmers and America but for the benefit of some individuals and special interest groups.

The government policies over the past years got us in this mess and they could get us out if they would use some common sense.

Two or three years ago the lending institutions were saying that the farmers were in financial trouble because they were living too high and made bad financial decisions. Now this year the Farm Credit System has confessed that they are in financial trouble and they need a $6 billion federal bailout. If they told the whole truth, they would need closer to $15 to $25 billion, but Mr. Reagan implied that they had not been very good stewards and for them to get their house in order before he would help.

Now I predict in two or three years, if they don't find some common sense and use it, that Mr. Reagan and Congress will be confessing their sins of bad stewardship. And then who will forgive?

The U.S. economy was getting in bad shape when Mr. Reagan took office.

The Baxter Report (A World Economic Service) has some things to say about this situation. "It is estimated that one-third of all family-size commercial farms owning almost one half of all farm debt, will face financial difficulty in 1985. Delinquent loans are up nearly 20 percent at commercial banks for all farm debt."

"Agriculture banks, identified by federal regulators as in trouble, have nearly tripled to 288 over the past 18 months. Farm banks accounted for 32% of the 79 bank failures in 1984, and in the final quarter of last year, 61% of the 18 bank failures involved were farm banks. Agricultural banks with serious problems are concentrated in 11 states running from North Dakota and Minnesota in the north to Texas in the south and from Colorado in the west to Illinois in the east. At least 70% of the banks in South Dakota and Nebraska have more than half their total loan volume tied up in agriculture. Last year in Georgia, 70% of the farmers were reported to be technically bankrupt."

BAXTER REPORT, NOV. 1, PAGE 6

"Farmland has been hit with a double whammy of a decline in crop prices along with the softening in the real estate market. In 1981 the average price of farmland in Iowa had risen to a record of about $2,000 per acre. As of January 1, 1985, the Iowa average had dropped by nearly half to $1,060 per acre."

You may think it's as bad as it can be, but it's going to get worse if commodity and livestock prices don't come up substantially soon.

I know some young farmers that owe more than they are worth. 1985 was their last crop. Some are just walking off, and some are not even harvesting the crop.

I predict there will be many more giving up next year, leaving FmHA, PCA., and the banks with more losses, if the future prices don't look better.

As the farm economy goes, the other industries will follow a few months or years later. Communities, small towns and large cities, retailers, wholesalers and manufacturers will follow the farmer in going broke.

The politicians say that the farmers were greedy and made bad decisions. They bought too much high-priced land and equipment. Lending institutions are going broke because they loaned money to the farmers and businesses that can't pay their debts. The politicians say that's bad business. The truth is, the government policies over the last ten years have caused most of the problems, encouraging farmers to plant from fence row to fence row and encouraging the farmers to grow food for the world's hunger. Then they put embargos and price freezes causing a backlog of production and low prices, inflation and high interest.

The Reagan Administration, in consort with a spendthrift Congress, has doubled the national debt in five years during the irresponsible Eighties. Our political leaders have saddled us with a huge debt that will be a burden on the economy for many years to come. Interest costs for servicing the federal debt have already mounted to $130 billion. This is equal to the total personal income tax collected from every taxpayer west of the Mississippi river! By 1990, due to the magic interest, debt servicing costs will hit $210 billion per annum.

The Paducah Sun of November 3, 1985, said, "The Farm Credit Banks of Louisville have reported income losses of $109 million during the first nine months of 1985, a setback that might mean trouble for hundreds of borrowers and suggests the banks themselves will need financial help in about two years."

"The losses were suffered by the Federal Land Bank of Louisville and a four-state network of production-credit associations overseen by the Federal Intermediate Credit Bank of Louisville."

"Officials also reported Friday that the banks were holding $659 million worth of loans on which farmers were not able to make payments."

"The Land Bank had most of the bad debts, which went from $81 million on Sept. 30, 1984, to $545 million on the same date this year."

"More than 1,300 farmers in the region covered by the Louisville banks—Kentucky, Indiana, Ohio and Tennesee—owed the $545 million. The region makes up the Fourth District of the National Farm Credit System."

"Marc McCance, director of financial planning and analysis for the banks, said less than half of those farms are in bankruptcy or liquidation. The Land Bank will have to begin settling accounts with farmers in the bad loan category, he said."

"That could mean foreclosure or some other type of financial 'work-out' such as the farmer deeding his land to the bank and leasing it bank to keep farming, McCance said."

"High interest rates and a farm recession have led to declines in the banks' business. About a year ago, the four-state network had $6.7 billion in outstanding loans to 147,756 farmers."

"The Land Bank's losses caused its 'risk-fund reserves' to decrease from $267 million at the end of 1984 to $204.9 million on Sept. 30, the report said."

"It said the district is 'prepared to continue to use its own reserves' and is prepared to seek aid from the Farm Credit System or some other federal assistance plan."

"During the recession, the value of farmland used as collateral for loans in Kentucky, Indiana, Ohio and Tennessee has dropped about 30 to 40 percent, he said."

DROVERS JOURNAL, THURSDAY, OCT. 31, 1985

"The combined 37 Farm Credit banks reported last week a third-quarter net loss of $522.5 million."

"The magnitude of the loss greatly exceeded many analysis' expectations."

"Peter J. Carney, president of the Federal Farm Credit Banks Funding Corp. (FFCBFC), who announced the third-quarter loss, also reported that the farm credit banks posted a loss of $426.3 million for the 9 months ended Sept. 30."

"It was also reported that total capital of the farm credit banks at Sept. 30, 1985, declined to $8.5 billion, off $700 million from the start of the year."

"The Farm Credit System also reported: The provision for loan losses for the first 9 months of 1985 came to $675.9 million, while net loan charge-offs during the period amounted to $317.9 million. The provision for loan losses and net charge-offs for the comparable period in 1984 were $77.4 million and $73.9 million, respectively, the FFCBFC said."

"Net loans outstanding of the farm credit banks were $70.7 billion at Sept. 30, a decrease of $3.3 billion, or 4.4 percent from the amount outstanding at June 30, and a decrease of $6.3 billion, or 8.2 percent from Dec. 31, 1984."

DROVERS JOURNAL, NOV. 21, 1985

"There is growing concern that the Farm Credit System may lose its 'soul' in the process of saving itself."

"The FCS is undergoing rapid changes, consolidations, mergers and other changes aimed at streamlining operations and reducing costs. But some critics—and they are growing in number—say that the original cooperative, farmer-controlled makeup of the system is about to be lost."

" 'The mergers are wrong,' says Rep. Glenn English, D-Okla., a chief critic of the system. 'They will eliminate local control.' "

"English, along with some other members of Congress, do not like the way Wilkinson is handling the current crisis."

"Wilkinson has been told by key members of Congress that the system will have to use up its own resources before Congress will vote to spend billions of taxpayer dollars for a bailout."

"In the meantime, mergers and consolidations of the system are going on in Nebraska, Kansas, Oklahoma, Utah and elsewhere. With this effort have come charges that the local PCA and FLBA memberships are being coerced and browbeaten into accepting mergers and consolidations."

" 'They are being told, either commit suicide or we'll kill you,' commented one Member of Congress. 'They are being told to accept the changes or lose all their resources.' "

"English, whose father was an official in the System for many years, says he wants Wilkinson to act decisively and use the power he has to transfer funds and use system resources, while at the same time try to preserve local control. He does not think Congress will let the system fail, but says if he has any say, local control of the system will be preserved, crisis or no crisis."

"The FCS is seeking a multibillion dollar line of credit from the federal treasury to shelter the system from a sea of uncollectable bad farm debts."

"Agricultural bankers expect no relief from the 'financial distress' that has plagued many of their borrowers, according to a survey of farm banks by the American Bankers Associations."

"The survey released last week at the National Agricultural Bankers Conference here, said 28 percent of all bank farm customers had debt-to-asset ratios of 60 percent or more, as of the year ended mid-1985."

"Each bank in the survey had at least $2.5 million in total farm loans or more than 50 percent of its total loan volume in agricultural loans."

"Bankers 'discontinued' 4.5 percent of their farm customers during the year, but that rate is expected to rise to 5.7 percent during the current year. Farmland values dropped 17 percent and are expected to continue declining."

THE PADUCAH SUN, FRIDAY, NOV. 29, 1985

"Prices of livestock and crops have sunk so low that farmers will get about 32 cents of each consumer dollar spent on food eaten at home in 1984, the smallest share in more than half a century, according to Agriculture Department analysts."

" 'The farm value of food—that part of the consumer's food dollar that goes to farmers—has dropped about 7 percent this year,' USDA economist Ralph Parlett said."

" 'Large supplies of many commodities—particularly cattle, hogs and poultry—have depressed producer prices,' Parlett said in a new outlook report. 'Also, farm prices for eggs and fresh vegetables have declined, as supplies have recovered from scarcities and high prices in 1984.' "

"The 32 cents that farmers are expected to get from each consumer dollar spent on USDA's market basket list of foods this year is down from 34 cents in 1984. According to USDA records, 32 cents would match the all-time low reported for 1932 and 1933 in the depths of the Great Depression."

"During World War II, the farmer's share of the consumer food dollar climbed to more than 50 cents, reflecting high wartime prices. Since the late 1940s, the farmer's share has mostly been in the range of 37 to 44 cents. But since 1980, when the indicator was 37 cents, the farm share of the food dollar has eroded steadily."

DROVERS JOURNAL, NOV. 21, 1985

"The U.S. food and farming sector is vast and growing, but the farming portion is declining in importance."

"According to the General Accounting Office, a branch of the U.S. Congress, the food and agricultural sector now generates $627 billion a year—20 percent of the Gross National Product. But farming itself accounts for only $74 billion of this."

"As thousands of producers struggle to keep solvent and to overcome the impact of heavy debts and low farm prices."

"GAO notes a number of places where the farming portion is declining. Typically, farmers are only getting 27 cents of every dollar spent at retail on food. Some 73 cents of a dollar is spent on getting the food from farm to consumer. In 1950 farmers were getting 42 cents of every food dollar. That percentage has declined steadily ever since."

"While producer prices have stagnated in recent years, the input and marketing costs have continued to rise. The amount of cultivated farmland has remained steady, but 'input use'—everything from chemicals to feed and seed—has doubled, tripled or increased many fold. Many capital-intensive farms are 'outdoor factories' that must maintain adequate cash flow to stay solvent. Many large and medium farms are so indebted and so heavily leveraged, they simply cannot survive periods of low prices. Falling land values have eaten up equity and diminished borrowing ability, GAO says."

"Despite massive government intervention, with more than 500 programs for farmers, half of all commodities are not covered by government price and income supports. These include livestock, poultry and eggs and fruits and vegetables."

"Interest rates, though down from the record level of 1981, are still high in real terms. Says GAO: 'In terms of real interest rates, credit has become more costly to farmers.' "

"GAO concludes that current government policies and programs in farming have either failed or are only partially successful."

THE EAST PRAIRIE EAGLE, THURSDAY, OCT. 31, 1985

"Farm profit lowest in history of MIR."

"Average net profits for farm operators participating in the University of Missouri-Columbia's Mail-In Record program in 1984 were the lowest in MIR's 24 year history, UMC agricultural economist reported this week."

"The average profit for a farm operator was a minus $6,075."

"Both the top and bottom of crop-beef farms suffered losses. The top had a $5,516 loss; the bottom half had a loss of $28,874."

"Many farmers are essentially living off depreciation. You have to wonder how long they can keep doing this."

KENTUCKY FARM BUREAU NEWS, DECEMBER 1985

"The 1984 Farm Costs and Returns Survey is considered by economists to be the most comprehensive to date. Economist Jim Johnson said that among the survey's most important findings is that, 'Many more commercial-size operations are in financial trouble than most analysts previously thought.' "

"Commercial-size farms—those selling $40,000 or more a year in farm products—form the backbone of American agriculture. Although they represent only a little more than one-third of all farms, they account for 90 percent of all farm sales."

" 'We found that at least one in five commercial operations was experiencing some degree of financial stress,' Johnson says. These farms were carrying high debt loads and were unable to generate sufficient cash to pay their bills."

"Specifically: Almost 129,000 commercial farms (20 percent of all farms with annual sales of $40,000 or more) were under financial stress because they had both negative cash flow and a debt-to-asset ratio of more than 40 percent."

I've been saying all along that the ones in financial stress are the heart of American agriculture.

"Not surprisingly, cigarette companies reduced their bids for the tobacco by about the same 30-cent margin that support prices were reduced by Congress."

This is more proof of what I've been saying, that every time the government lowers support prices, the market prices also follow unless some disaster such as a drought, war or others occur.

I would like to recommend that Congress enact the National Economic Stability Act, namely:

NESA eliminates current federal crop subsidy, financing, and commodity buying programs. Since NESA will establish a new and truly fair market, continued government intervention will be unnecessary. Government may purchase food for such programs as foreign aid and school lunches, but it must buy all such commodities on the open market and pay the same price as other buyers.

Prices for storable foodstuffs and fiber (corn, wheat, barley, oats, soybeans, rice, cotton, potatoes, milo) and for livestock, dairy animals, and poultry will be set at a minimum of 90% of parity and a maximum of 115% of parity.

These prices will be based on USDA figures drawn from the 1910-1914 base period, and they may fluctuate within the limits as the market demands. To ensure uniformity, the Consumer Price Index and the Wholesale Price Index will also be reset to fit the parity price structure.

Imports of the products governed by NESA must be priced domestically at 110% parity. This provision is needed to prevent the domestic market from being flooded by cheap commodities from abroad. Ultimately, too, NESA will work to the benefit of raw materials producers overseas, by guaranteeing them a fair and adequate price for their products and thereby establishing their economics on the firm foundation needed for sound economic development.

Gordon Samples has or will be elaborating on the main provision of NESA.

From a letter received December 12, 1985, from the Federal Land Bank of Columbia and the Federal Intermediate Credit Bank of Columbia:

"Dear Sir, Because of the adverse conditions affecting the agricultural economy, the Federal Land Bank and Production Credit Association have become the unwilling owners of a number of rural properties."

"These properties, located in the two Carolinas, Georgia, and Florida, are being priced for immediate sale with attractive owner financing to credit worthy purchasers."

Chairman HUBBARD. Thank you very much, Thomas Larkins. Gene Ray Miller is vice president of the First National Bank of Mayfield. We will hear you now, then Gordon Samples, and then go to our last panel.

STATEMENT OF GENE RAY MILLER, SENIOR VICE PRESIDENT, THE FIRST NATIONAL BANK OF MAYFIELD, KY

Mr. MILLER. Thank you very much, Mr. Chairman. I brought with me a bushel basket of statistics for you to munch on but I am not going to read those. I expected applause for that.

But I do want to tell you, Carroll, be assured, that we in the community banks are in a very uncomfortable position trying to service our friends and neighbors who are farmers and at the same time satisfy the regulatory authorities who demand that we make prudent loans, and for the last few years those two things have been on a collision course. So it has left us in a very, very uncomfortable position.

Second, I want to underscore a point that has already been made today and that is please do not attempt to bail out the Farm Credit System and the farmers who are in the Farm Credit System without some attention being given to those farmers who have borrowed from community banks. Also that rare individual, and I do not think I know one of these personally, but that rare individual who has been able to farm without borrowing any money but who, because of the bad times, has totally eroded his net worth that he had built up when times were better.

Now, it seems to me that the thing we need to do is just to look at what the basic problem is. The problem is multifaceted. We have over production costs for sure. We have high interest rates for sure. We have problems with subsidies. And many other problems, including the weather that the farmers cannot have any control over. But the one thing that they have the least control over it seems to me, and they look to Washington for help in this respect, is marketing the product. That farmer cannot market 500 acres of soybeans by himself. He does not have the expertise; he does not have any way to do it. And that is the area where Congress and the administration can come to bat and help the farming industry. If marketing is taken care of, these other things will fall in line. So the only word that I would leave with you is, marketing; marketing; marketing. That is what the farmers need.

Now we are competing with foreign countries, some of whom play by the rules, some of whom, most of whom I think, do not. So we have to keep that in mind. We have to address the problem. And if you get the marketing end of it squared away, the other things will fall in line I believe. Thank you very much.

[The following letter with attached statement were submitted for the record by Mr. Miller:]

THE FIRST NATIONAL BANK,
Mayfield, KY.

The following statements were made in the hearing at Mayfield, Kentucky on December 20, 1985 by Gene R. Miller, Senior Vice President of The First National Bank of Mayfield, Kentucky.

Gentlemen: In addition to the written statement which gives you plenty of statistics to munch on—I want to point out that we are caught between trying to serve our farmer friends and neighbors and satisfying the regulatory authorities who insist on prudent lending practices. Unfortunately in 1985 there is a conflict here.

Secondly, please remember that assistance to the farm community does not mean *only* those who owe the Farm Credit System, but also those who owe the commercial banking system.

The answer is not in production because the farming community is over producing. It is not even in financing because too much financing has been offered to the farmers, it is in marketing (pure and simple). We are competing with foreign countries who do not always observe the rules. Leadership must come from Washington on marketing to the rest of the world.

In conclusion, the answer is marketing—marketing—marketing.

Thank you.

GENE R. MILLER.

Farming in Graves County and in the United States is a major business and must be allowed to survive its present depressed condition. If nothing is done to help the farmer, the results in Graves county would be catastrophic.

The main crops produced in Graves County are tobacco, corn and soybeans. The periodic census of agriculture report shows that in the 1984 crop estimate, Graves County and the Jackson Purchase counties of Ballard, Calloway, Carlisle, Fulton, Hickman, McCracken and Marshall harvested almost eleven million pounds of dark fired tobacco. The eleven million pounds of tobacco is 49% of the Kentucky state total production of dark fired tobacco. The counties of Graves and Calloway were the top two producers in the state, producing nine and three quarter million pounds, 43% of the state total for the 1984 crop.

Also in the same 1984 crop estimate the Jackson Purchase counties produced nearly seventeen million bushels of corn, with the counties of Calloway, Graves and Hickman being in the top twenty producers in the state. The Jackson Purchase counties also produced nearly ten and one half million bushels of soybeans; twenty-five per cent of the entire state total production with Ballard, Calloway, Graves and Hickman Counties being in the top fifteen producers in the state.

In the ten years from 1974 to 1984, farm production has greatly increased in the Jackson Purchase. Using Graves County as an example, production has more than doubled in dark fired tobacco. The periodic Census of Agriculture stated that in 1974 Graves County produced 1.9 million pounds of tobacco while in 1984 4.7 million pounds were produced. The 1974 average production was 690 pounds per acre, 1984 was 1,955 pounds per acre, an increase in yield of nearly 1300 pounds per acre.

Corn shows a similar story in Graves County, with nearly 4.9 million bushels produced in 1984, as compared to 2.1 million bushels in 1974, with yield per acre increasing from 84.5 bushels in 1974 to 103 in 1984. The amount of soybeans produced remained about the same at 2.4 million bushels; however, yield per acre did increase from 24.5 bushels in 1974 to 27 bushels in 1984..

Thus, the farmers in Graves County and in the Jackson Purchase are producing more on their farms. However the cost of running their farms has also greatly increased. Kentucky farmers in 1974 spent over one billion, two hundred twenty five million dollars to produce their crops, while in 1983, the last year figures were available, it cost Kentucky farmers two billion, four hundred and forty million dollars. Thus, Kentucky farmers spent approximately twice as much money in 1983 as in 1974.

However, as any farmer can tell you, he was not rewarded for his increased efficiency and cost of doing business. Only dark fired tobacco has come close to doubling in price, rising from a pound to $1.50 a pound. Soybeans nosedived from an average $7.75 a bushel to $6.10 a bushel and corn decreased from an average of $3.00 a bushel to $2.25 a bushel.

As any businessman could relate to you, when your cost of production increased and your income from your finished product decreases, you have two choices. Either decrease the cost of producing your product or raise the price of your finished product. The farmer cannot control his production cost. As the cost of his machinery, seed, fertilizer, and pesticides are controlled by large companies who set their prices to insure their profitability, the price of the farmer's finished product cannot be controlled as the price is set by the companies who buy their crops and also expect to make a profit.

One of the main concerns of anyone living in Graves County is what would happen to the economy of the county if the General Tire plant were to be shut down. General Tire's annual payroll at their Mayfield plant is approximately forty two million dollars. The results would be catastrophic, not only due to the loss of the payroll, but due to the increased cost of government services that would be required.

Imagine then the results if an industry contributing seventy million dollars to the income of Graves County were to shut down. This is the total value of crops that were produced by Graves County farmers. These figures are estimates for 1982 in a profile of Purchase area agriculture.

Everyone in this area realizes that the farmers in Graves County, the Jackson Purchase and the United States need some type of help to survive, and the farmers in this area should be treated like the multimillion dollar industry they are.

To attract a seventy million dollar industry to Graves County, many special concessions would be made by government officials and applauded by county citizens. To keep such an industry viable and healthy, we should offer the same considerations.

The economic impact on Graves County should not be the only criteria for determining to help the farmers out. As with most situations, the human side of the loss would be felt the greatest on our friends and neighbors. Many national news reports have shown farmers watching the sale of their land and equipment, some of whom have been farming for several generations. The hurt they feel from the sale of their land, which had been passed down from father to son for generation after generation, cannot be expressed by words but only by their faces. This scene has not yet been shown in Graves County, but it is only a matter of time before it happens.

Many of the national farming magazines are starting to carry articles on suicide prevention and career planning for farmers who can no longer farm. Imagine if you, as a farmer, are now reading in the magazines you used to read for farming ideas, not articles on how to increase your production, but articles on how to keep from killing yourself and how to find work outside the farm.

For the farmer to survive he needs an assurance of the money needed to plant his crops and a market for his crops at a fair price. Some help has already been proposed to aid farmers by providing an overhaul of the farm credit system to assure those farmers that are borrowers of the system the money and stability needed to plant their crops.

This is all well and good for those farmers, however the farmers who are not borrowers of the Farm Credit System have not been helped. These farmers are borrowers from their local banks and deserve the same support as those who are borrowers under the Farm Credit System. Any interest rate reduction or guarantees provided by the Treasury should also be made available through the local banks who have been helping their friends and neighbors continue to farm. This would only be following the concepts established by our founding fathers that all men are created equal. Thus, if help is established for one group of agricultural borrowers, the same help should be provided for all.

However, it must also be realized that whatever government action is taken to shore up the Farm Credit System, not every farmer can be saved. Some must be allowed to fail so that others can survive. Even though this may sound cruel to some—especially those that will lose their homes and equipment—it will be impossible to guarantee or make a loan to a farmer who has little or no chance to survive. Every industry has had to make this choice in the past several years. An example is the recovery of Chrysler Corporation from near bankruptcy a few years ago.

Lee Iacocca brought Chrysler back to health with the help of the federal government with its billion dollar loan and its commercial bankers who restructured its debt. This was not enough for Chrysler to survive as they also had to lay off or offer early retirement to some employees and completely close some plants. The hardship imposed by these layoffs and plant closings were severe on the families it affected, but it did help save the Chrysler corporation from failing.

Much the same attitude must be taken with the farmers and their loans. The money must be made available to farmers, but, and this is a strong but, they must also show that in an average year, with average prices, they can expect to pay back the loan. If they cannot, then as painful as the situation will be, they must be refused the loans.

When Chrysler was applying for their loan from the government, one of their strongest points was that if they were allowed to fail, then six hundred thousand people would lose their jobs and the effect on the national economy would be catastrophic. If the nation's farmers are allowed to fail, the results would be even worse. A consumer does not necessarily have to purchase a Chrysler automobile, but he cannot live without the food produced by the farmers.

After the farmer has the money needed to plant his crops he must have a market for his crops. Everyone knows that our nation's farmers, through their efficiency, produce much more food that we can consume. The logical choice then must be to export the surplus. Most farmers have argued that the Russian grain embargo was the worst possibie weapon that could be used against the Russians, no matter how morally indignant we were that they had invaded Afghanistan. Setting aside the moral question of whether it is right to use food as a bargaining point in our foreign relations, the one clear point that was made to the world was that we were a source of food that could not be depended on. The flow of food to their people could be cut off at any time that a president wanted to punish them. This is a conception that the U.S. Government must change. The market is there in Japan, China, and the Soviet Union for our surplus. We must be aggressive in pursuing these markets.

If the farmer is allowed to plant his crops and has a market to sell them at a fair price, he will survive. However, as a believer in self reliance and the less government regulation and interference the better, any government help must carry a cutoff date for assistance. This end to government help should be made clear to both the lenders and the farmers. Five years would be a proposed minimum time, with ten years the maximum. This time frame would allow both the farmer and the lenders to plan ahead so that the crisis that exists in today's agriculture does not occur again.

In closing, it is vitally important the situation that exists today must not be allowed to continue. With the situation that exists now, the majority of agricultural loan proposals could not be considered prudent risks by normal banking standards, thus the banker is caught in a "Catch-22" situation. He wants to help the area farmers who are his friends and neighbors, but if he does federal bank examiners will question his decision as not having been made according to prudent banking practices.

Chairman HUBBARD. Gene Ray Miller, thank you very much for your excellent testimony. Representing the First National Bank of Mayfield.

Gordon Samples of Hickman County is an active young farmer who is not reluctant to share his views. And we ask you to speak at this time. Keep in mind we do have another group that has not had a chance to speak.

STATEMENT OF GORDON SAMPLES, CLINTON, KY

Mr. SAMPLES. I did start my comments earlier when Mr. Parris was here. I want to state a few things I did not state.

One, I am a farmer. I am also a supplier, I sell seed, and fertilizer. I do not sell chemicals. That is about the only product that goes into the production of agriculture that I do not sell. I sell farm equipment also, and I want to point out to you, Chairman Hubbard, that a lot of the people who say they represent me as lobbyists in Washington, from every one of those groups, from farm groups, from supplier groups, from equipment dealer groups, are not representing me. They are representing basically their own interests and not the interests of the grassroots people at home. I am very upset about the way some have represented me by saying what I feel.

I put together a grassroots farm equipment dealers meeting. I think I sent you information on it. I have also sent you information on the resolutions that were passed. If you will check the resolutions that were passed from those dealers that were there and check and see what the organizations that represent us with lobbyists in Washington say, you will see they are direct opposites. You will see they do not support what the dealers at home support. And that is something I want to point out.

If you would look at some statistics taken from Kansas on polls of farmers of what they support, you will find out that the biggest farm organizations do not support the same things that farmers support. So I want you to be aware when you listen to lobbyists in Washington that they may not be representing the people back home. And that is the case we have right now.

What I am going to talk about today I am going to have to condense from 6 years of study I have done of the economic system of this country. I have studied this thing closely for 6 years. I am a student of history. I have watched history over the—well, from the beginning of time. And studied from history to see what works economically.

We have an economic problem in this country, not just the farm problem. The thing is, though, it stems from a farm problem. What we have is a problem of low income for farmers. And this spills over into the rest of the economy. We are violating God's law of "thou shalt not steal." We are legally stealing the produce of farmers and this is morally wrong. We are taking produce from farmers at below the cost of production, therefore, we are stealing. That is what it amounts to. We have people who eat well in this country and have money left over to buy their wants. But yet we have farmers who cannot buy their necessities. This is stealing and that is all there is to it and it is morally wrong.

I want to point out there has been talk about diversification. Of all the diversification I have heard talked about the only possible diversification I know of for a farmer right now is get a job in an outside business. There is no segment of agriculture where you can diversify and make money. I think that is mostly what people have talked about when they have talked about diversification. Is they have talked about people that had off-farm jobs.

What I want to give is solutions. I do not want to tell any more of the problem. Most people have been telling the problem. There are solutions. History has abundantly pointed out solutions to us, things that have worked in the past. I want to quote from two people in history. The first is Franklin D. Roosevelt. "It is commonsense to take a method and try it. If it fails, admit it frankly, and try another. But above all, try something." We are trying systems that have failed. It is time to try something different. What different do we try?

The second is a quote by Benjamin Franklin. "There are three ways a nation can become wealthy. It can make war and take the wealth of another by force. It can trade freely and make a profit by cheating." Now notice this, free trade. That is what that is talking about. "Make a profit by cheating; or it can profit through agriculture. Whereby, planting a seed, we create wealth as if by a miracle." What is that miracle? In my written testimony that I have handed in, I tell of the miracle of agriculture. I tell of the fact that I put down 411 pounds of fertilizer on my soil for corn. I put down 14 pounds of seed. And from that 425 pounds that I put directly in the soil, I reap 6,300 pounds of corn. That increase of 1,482 percent was given to me by God. It was wealth, new wealth. He talked about new wealth. The only new wealth that comes into an economy is raw materials. Everything else has already been here. And until we value those raw materials, that new wealth, we cannot have a balanced economy. God created a balanced economy. And until we follow the principles of God, and God plainly talks all through the Old Testament about cheating for the price of a bushel of wheat and having unjust weights and measures for the wheat itself and for the money that pays for the wheat, as long as we have the unjust system that we have now, then we are cheating God. God gives us this wealth and when we do not pay back and make use of this wealth, we cheat God.

Now, what are the points of the bill I am talking about? The bill is called the National Economic Stability Act. Although it is not a farm act, it is through a banking committee because it is an economic act. You asked Thomas Larkins the question of where would you cut money. The No. 1 item in the National Economic Stability Act eliminates current Federal crop subsidies, financing and commodity buying programs. Do away with farm subsidies. The second part of it is prices for storable feed stuffs, which also includes livestock, dairy and poultry, and sets them at 90 percent of parity with a maximum of 115 percent of parity. This is based on base parity price years of 1910 to 1914, which met the criteria for parity years. 1946 through 1950 also met those criteria for a balanced economy.

These prices would be set just like the minimum wage is. No subsidies, just set the price by law. It would not cost the Government money.

Minimum wage in this country would be set the same as a bushel of corn. This is balance.

Agricultural producers may plant the crops they wish, in the amounts they wish, but they can only sell what the domestic and export markets will absorb. There will be marketing certificates. I talked to the economic adviser of the group that wrote this bill about 3 weeks ago. He said they feel like probably the first year, due to the surpluses that we have now, that we might have to cut production 10 percent. But that would be the most that would ever have to be cut, and there is some possibility we would not have to cut that much.

I want to point out at this time that in order to have parity prices, we need 100 percent production times 100 percent price. When we cut either production or price, we limit the amount of wealth that comes into this Nation to be used to buy the goods and services of this Nation.

Chairman HUBBARD. Please try to wrap it up now in about 1 minute, OK?

Mr. SAMPLES. There is no way I can wrap up 6 years of study in that short a time. I guess the next most important part of the bill is the part of balancing trade.

We must balance trade, and in this bill all agricultural production that is in competition with what we produce in this country would be allowed entry but only at 110 percent of parity. It would have to be priced at a price that would allow us to compete on our own basis. And trade would be balanced at our borders. We would not have to worry about the value of the dollar in other nations. We would have trade based on the following: if Japan wants to sell us cars, which they do, they would sell us cars at our cost of production, then they would buy our products, farm products, at our cost of production. We do not move dollars back and forth; we do not worry about the value of the dollar to the yen. We take care of our money as the Constitution directs Congress to do and let them take care of their money.

There are so many other things that I need to point out.

Chairman HUBBARD. Let me assure you, Gordon, that your prepared remarks will be in the record.

Mr. SAMPLES. Yes, but there are a few things here that I really did not have in the prepared remarks. One thing I definitely want to get into the record.

We are talking about a serious problem in this whole Nation. I have a friend who is a trustee in bankruptcy in Louisiana. In his district that he controls he is now overseeing $1 billion in bad debts. That is a 75-percent increase over last year alone. Of that, 30 percent of it is agricultural debt; thirty percent of it is small businesses; and 30 percent of it is individuals. Of the 30 percent of individuals, and he has been a trustee since 1954, 90 percent have ended in broken homes. Now that is a great price we are paying for under paying agriculture. We are not putting enough money in the system to keep the system going.

Chairman Hubbard. Not putting enough money in the system?

Mr. Samples. Right. Now, you have no inflation when you——

Chairman Hubbard. Where we just voted a bill that puts more money than ever in the system.

Mr. Samples. But you only put as many dollars in the system as you have raw materials come into existence in a year. That is not inflation. You are valuing raw materials. You print the dollars based on how many raw materials you put in existence in a year, and that is all. You can create no more money than what you create in wealth, true wealth, from raw materials. Any money that is printed that is not based on raw materials, is inflation money.

Chairman Hubbard. Gordon, I thank you so much for your testimony. You are a knowledgeable young farmer. I said that when I introduced you from Hickman County.

Mr. Samples. Can I make two more statements?

One, I want to say what this bill would do to my county—that you already said was one of the counties in Kentucky that had a reduction in population. This bill, in 1985, would have meant $25 million of gross income to the farmers in my county. Now, do you think with $25 million more income that our population would continue to decrease? We would see real growth because we would have money to spend in our county.

The one other quote I want to make—and I do not want to go anywhere without saying the whole basis of my study, the whole basis of the shape I think this country is in, and what I think the true solution is—is from the Bible, II Chronicles 7:14, "If my people, which are called by my name, shall humble themselves, and pray, and seek my face, and turn from their wicked ways; then will I hear from heaven, and will forgive their sin, and will heal their land."

Chairman Hubbard. All right.

Mr. Samples. And I think that is the whole basis of what this country has to do if it wants to survive. Thank you.

[The prepared statement of Mr. Samples follows:]

PREPARED STATEMENT OF GORDON SAMPLES

It would be impossible to address any credit crisis without first exploring and documenting both the current and potential credit deficiencies. The Farm Credit System is not the only segment of lending that is having difficulties, and agriculture is not the only segment of our economy that is in serious financial condition. The whole of our financial institutions are in jeopardy of total collapse. Without government intervention of approximately $4.5 billion, one of our largest banks, Continental Bank of Illinois, would not have survived and could have started a domino effect in the financial community that would have proved difficult to curtail. Other international banks face millions in lost interest and billions in uncollectable loans with foreign governments which American taxpayers have been obligated to secure. What will be the impact of this tremendous loss of wealth? The financial community will be collapsed at a rate greater than in the depression of the 1930's. According to F.D.I.C. there are currently over 800 banks in trouble with banks folding at an alarming rate.

The Farm Credit System liquidity problem will not be solved by the $6 billion request they have presented to Congress. The domino effect of depressions is already started in agriculture. Every time a debt laden farmer is sold out, the next lowest farmer is in jeopardy and will be next on the foreclosure list. With declining prices for all farm assets, not just land, farmers equity declines whether or not he makes his principal payments. This translates into an identical situation for Farm Credit System portfolios, declining equity regardless of payments. Even now the Farm Credit System is not admitting the extent of their potential losses by failing to reduce asset values to their current levels. This practice has prevented a total collapse in the system but has led to a misconception of the condition of farm credit.

FmHA is also experiencing debtor problems and there is no doubt that the responsibility of these losses rests entirely on the taxpayers. According to Marci Zarley Taylor in an article in the November issue of *Farm Journal*, one third of all FmHA loans are delinquent, and of 55,000 delinquent disaster loans, 42% have not made a payment in 3 years. FmHA already shows $6.7 billion in past due loans. With current cash flow problems worsening in the face of 2 years of near record production, we must assume the trend in delinquent payments will worsen. Historically we should not be in such a crisis following two near record crops. I shudder to think of what would happen if we were to have weather problems. With current figures showing approximately $145 billion of problem debt in the farm sector alone, I think we must deduce that the $50 to 60 billion that Senator Dole's office estimated would be needed to prop up the financial community might be a bit conservative. I hope you realize that I have not dealt with farm debt in commercial banks or with SBA.

We need to realize that the total debt condition has grown into a national disaster. With total public and private debt of $8.2 trillion, $1.2 trillion in the last year alone, and Gross National Income of approximately $2.6 trillion, the whole nation is bankrupt. Also note that this does not include past service liabilities such as social security and pension plans (see chart 4 attached from the Grace Commission Report to the President). I know personally a trustee in bankruptcy in Louisiana who is currently handling $1 billion in debts, a 75% increase in the past year. An adjoining district has experienced a 200% increase in the same period. This is not all farm debt; other segments of our distribution system are also financially strapped.

We must admit that with a $2 trillion debt, over $4.3 with unfunded past service liabilities included, and continued deficit spending we are locked into a downward spiral if we do not make a major change. Interest payments, which are near 40% of our GNI, require so much of our national income that it is impossible to pay any principal on the total public and private debt. Each year the nation must reborrow every dollar of principal that is paid and borrow an additional $250 billion or more in new debt. Why? So that we can buy the goods and services of others.

Bankers are now telling us that we must consider cash flow, or repayment ability, instead of ~~debt to~~ equity ratio to determine our financial condition as individuals and businesses. I contend that the same holds true for our government. It is simple to see that no entity can continue indefinitely spending more than it takes in. The government is no different and deficit spending must be stopped, but a balanced budget is not sufficient. We must also start paying off our debt. We must consider how to turn present policy into sound monetary and fiscal policy.

If we were to slash the budget by the $200 to 300 billion necessary to balance the budget, we must understand that we will also reduce government revenue due to the taxes generated by those expenditures. Unemployment would increase and there would be renewed demand for government services. If we reduce the deficit by raising taxes, we will drain all money for continued business and expansion and reduce consumer spending to the point that it will increase unemployment. This unemployment will again reduce government revenue and again increase demand for government services. It appears that we have a "Catch 22" situation. This is due to the fact that Congress has not fulfilled its Constitutional mandate. Study the President's Grace Commission Report charts 7 and 13 attached to this document.

Article I, section 8, subsection 5 of the United States Constitution states that "Congress shall have power—to coin money, regulate the value thereof, and of foreign coin, and fix the Standard of Weights and Measures." If your predecessors in Congress had taken seriously their responsibility of upholding the Constitution, we would not have the massive debt, either public or private, that faces us now. We must be expedient in breaking away from recent tradition and the fiscal and monetary policies of our founding fathers. As Franklin D. Roosevelt stated, "It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something." It does not take a genius to realize that current policy is not working and we must try something else. The Constitution requires Congress to print money, to regulate the value of that money, and to value foreign money within our own country. In 1913 Congress turned over much of this responsibility to the private corporation called the Federal Reserve System. *This is clearly unconstitutional!* My dollar shows that it is a "Federal Reserve Note," not a United States government note. Our forefathers would be horrified to see the Constitution, and the very principles that they risked their lives to establish, ignored. Until Congress regains its Constitutional authority of determining the value of our money, we are doomed to depression and a reduced standard of living.

We must understand how our republic form of economy works if we are to correct our problems. It is ridiculous to believe we can change 35 years of economic mistakes with patching and bail-outs if we fail to understand what actually makes our system work. Benjamin Franklin stated the basics of our economy very simply, "There are three ways a nation can become wealthy. It can make war and take the wealth of another by force. It can trade *freely* and make a profit by cheating. Or it can profit through agriculture, whereby planting a seed we create new wealth as if by a miracle." This is a simple base of knowledge to begin a study of our economic system, and I want to explain the system in more detail, but you must understand that it would take at least 2 hours to sit down and show you the system. I am willing to spend that time if you will contact me.

To begin with, you must understand that economics is a science and as a science must be provable by mathematics, which is the basis for science. Any philosophy that cannot be proven by mathematics is certainly false. For example, free traders tell us that for each 1% decrease in price, exports increase 1%. However, in reality in the past year for each 1% decrease in price wheat exports have decreased 2.74%.

Our primary study must determine where wealth originates and how to value that wealth to create a prosperous economy. To discover new wealth we must understand our distribution system which is very clearly explained in the *World Book Encyclopedia*, Volume 5, copyrighted in the U.S.A. in 1971. I have enclosed a copy of that information. We must realize that for the distribution system to function properly each segment of the workforce must receive its fair share in order to buy the goods and services of others. While this distribution system is essential and without doubt must be in balance, it only hints of where the wealth actually originates. Who in that chain actually produces something from nothing, who brings something into the marketplace that did not previously exist? The farmer, and as such he is the cornerstone of our distribution system. Income must be earned and wages paid at each stop in the system, but a balance, parity, must be maintained to enable the system to function properly.

Let me give an example of the miracle of agriculture. This year in producing my corn crop, I directly planted 14 pounds of seed and applied 411 pounds of fertilizer to produce an acre of corn. In addition, to plant and harvest the crop I used 48 pounds of diesel per acre, and to protect it from weeds I used 10 pounds of chemicals in indirect support of production. My return this year was 6300 pounds of corn from 425 pounds of direct input and 58 pounds of indirect input. This is an increase of 1,482.4 percent of direct inputs. The miracle of prosperity in our system comes from this miracle of production from God through the land.

How do we achieve the balance needed to enable the distribution system to work properly? We *must* value raw materials, especially renewable raw materials such as agriculture, at a dollar value that will enable the producer of that commodity to exchange his produce for a sufficient number of dollars to pay his production cost, maintain his capital base, earn a return on his capital investment, and earn a wage for his labor in balance with other wage earners in our economic system. Why is this necessary? To enable the primary producer to purchase the goods and services of others and inject new money, wealth, heretofore not existing, into the economy. This is exactly what the Constitution directs Congress to do in order to value our money.

We must understand that this country amasses no more new wealth, without inflation, than that value in dollars of the raw materials produced in this country. If we undervalue raw materials, we shortchange the entire system. The result is debt financing. A study of this nation's economic statistics shows that for every dollar we under pay agriculture in this nation, it takes two dollars of debt expansion to keep the system functioning. How long can this destructive practice continue? If you still are not convinced that the system is collapsing around us, then examine the enclosed chart on debt to deposit ratio.

Until we understand the cause of our excessive debt, we cannot hope to cure the ills facing Congress and the nation. In the face of the statistical information supplied in this testimony, how can anyone deny the proven determination that our nation's economic disaster is a result of the undervaluation of raw materials, primarily agricultural products. The only way for the nation's workforce to earn enough in wages to buy their own goods and services is for the entire system to be in balance, including agriculture. If we do not earn the income into existence, we have to borrow against the future income of our children and grandchildren. We have created a false prosperity. However, this balloon is beginning to burst, first in the agricultural sector then quickly in the rest of the economy. If we decrease borrowing without replacing the loss of borrowed dollars with new raw material dollars, we will suffer unemployment as in the 1930 depression. Depressions are a direct result of an imbalance in the economy.

Some economists tell us that demand decreases, thereby creating an oversupply. These are the same people that tell us that there is now an oversupply of agriculture products because of a lack of demand. Why do we believe this lie? How can there be a lack of demand with 55,000 people dying every day as a result of starvation. Do people cease to eat because they grow tired of eating? This is ridiculous! People starve while I am forced to store my crops at government expense just to survive economically. This is directly against God's commands to His people in Proverbs 11:26; "He who withholds grain, the people will curse him, but blessing will be on the head of him who sells it." The problem is not the lack of demand, but the lack of wealth to purchase what they desire to have. Lack of wealth causes depressions, not lack of demand. Lack of wealth also causes excessive debt. People, businesses, and governments do not have to borrow if they have adequate income to provide for their needs.

How can an economy provide adequate wealth, or income, to achieve an environment where each sector has the potential to earn a profit? The way to provide new wealth is to determine the true value of raw materials in balance with the rest of the economy. This is not something new. God created the world in balance and provided, for man, new wealth on an annual basis from the soil, air, and water. Congress has the obligation under the authority of the Constitution to value raw materials. This value must be maintained in balance with the rest of the economy. This was done by the Steagall Amendment in 1942 and was responsible for restoring prosperity to this nation even though we were at war. I need to point out that the supply and demand economists attributed the return to prosperity to the war. If this were true, then why did the Vietnam War almost bankrupt our nation?

Let us examine the true picture of economic conditions necessary to bring a nation out of depression using history as our teacher. The depression of the 1930's was a world-wide depression not just felt in the United States. Two nations in Europe regained prosperity before World War II by balancing their raw material values to those of labor and industry. As a result of achieving this balance, Sweden in 1937 regained profitability as a nation and had the highest per capita income in the world without war. Germany under Hitler turned from a bankrupt nation, a result of World War I, to one of the most industrious and successful trading nations in the world, enabling them to produce the arms necessary to fight a war. They did this by valuing raw materials and trading based on their own values. All this while the United States was trying every kind of social program imaginable, financed with borrowed money, and remaining in the state of depression. These nations successfully managed their economies to achieve prosperity. If the supply and demand economists are correct that war brought us out of the depression, why did England, France, Japan, Germany, Italy, and most of the other countries in the war end the war with great debt and the United States have to bail them out? Why could the United States bail them out? Because we were operating under the economic strength of parity from 1942 through 1952 and thereby generated sufficient income to fight a war and pay for that war.

History has given us the answer to our current credit crisis which is a result of our current income crisis. People can either learn from history or continue to make mistakes of the past. Is Congress willing to take control of our monetary system as the Constitution requires? Do we have representatives and Senators with enough fortitude to stand up for right and justice, or are they willing to be manipulated by the Federal Reserve and big international bankers? Our task will not be easy, but it was not easy for our forefathers to give us this form of republic economy. Many had to give their lives. This is the only reasonable course of action that will correct the ills of this nation. Let us be wise enough to deal with the disease and not continue to treat the symptoms. This is the only policy that will cure our economic cancer.

Study the Grace Commission Report and you will discover that neither reducing spending nor increased taxes will solve our problem. I can prove that parity pricing of raw materials will immediately turn this nation around. The turnaround will start the day the law is passed. Legislation has already been written to start the process and is called the National Economic Stability Act (NESA). We need congressmen to take up the fight on both floors of the Legislative Branch. This basic package will solve the credit crisis by increasing income to those who are now unable to pay their debts, and the real beauty of the bill is that it does not cost government tax dollars, it actually increases tax revenue.

If you desire to learn more about how a republic form of economy is supposed to function and how NESA will start correcting our misguided system, some of my colleagues and I will be happy to spend more time on the subject with more facts and statistics to prove God's system of parity. You must understand that time is of the utmost importance. We must have the bill passed before the spring crops are planted.

Be wise enough to learn, bold enough to take action, and leader enough to influence others.

Chart 4

TREND IN FEDERAL LIABILITIES PASSED TO FUTURE GENERATIONS
($ Billions)

	Decade Averages	(1) Federal Debt Plus Unfunded Past Service Liabilities Of Social Security And Federal Pension Plans	(2) Off-Budget Deficit Plus Amount Necessary To Amortize Past Service Liabilities	(3) Surplus/(Deficit)	(4) Surplus/(Deficit) Including Off-Budget Deficit Plus Amount Necessary To Amortize Past Service Liabilities
(1)	1950's	$ 519.5	$ (16.6)	$ (1.8)	$ (18.4)
(2)	1960's	924.6	(39.9)	(5.7)	(45.6)
(3)	1970's	1,568.3	(71.3)	(30.2)	(101.5)
(4)	1983	4,262.5 #	(198.5)	(195.4)	(393.9) *
	1983 As A Multiple Of				
(5)	1950's	8.2X	12.0X	108.6X	21.4X

* The tru deficit is mind boggling.

Chart 7

CAN THE DEFICIT PROBLEM BE SOLVED WITH INCREASED TAXES?

(1981)

	Taxable Income Bracket	(1) % Of Taxable Income Through Each Bracket	(2) Number Of Days Government Can Be Run If Government Taxes All Remaining Income Above The Bracket As Tax
1	Up to $ 15,000	63.1%	206 Days
2	Up to 20,000	74.9	130
3	Up to 25,000	81.9	88
4	Up to 30,000	87.2	58
5	Up to 35,000	90.4	41
6	Up to 40,000	91.9	33
7	Up to 50,000	94.4	21
8	Up to 75,000	97.1	10
9	Up to 100,000	98.0	7
10	Up to 150,000	98.6	4

All taxable income not already taxed above $75,000 would run the government only 10 days.

CHART 13

THE PPSS IMPACT ON THE DEFICIT
($ Billions)

	Fiscal Year	(1) Without PPSS Savings	(2) With PPSS Savings	(3) PPSS Improvement
(1)	1983A	$ (195.4)	$ (195.4)	-
(2)	1985	(185.1)	(135.7) *	$ 49.4
(3)	1990	(386.7)	(26.6) *	360.1
(4)	1995	(775.4)	(62.6) *	712.8
(5)	2000	(1,966.0)	(37.1) *	1,928.9
(6)	17 Years, 1984-2000 Cumulative Deficit	$(11,639.0)	$(1,106.9)	$10,532.1

Projections Developed by Data Resources Inc.

* Even with cost cutting measures our deficit will continue into the 21st century

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DISTRIBUTION is the second step in a series of economic processes which bring goods and services from those who make them to those who use them. The making of such goods and services is called *production*. The use of the goods is called *consumption*. *Distribution* includes all methods by which the goods are sent from producers to consumers. Another part of this distribution process is the distribution of income. The distribution of income is the way in which the wealth of the nation is divided among those who produce, those who distribute goods and services, and those who consume goods. Nearly all consumers are also either producers or distributors. Without the process of distribution, people would have no way of obtaining useful services or products such as food from a farmer, clothing from a tailor, or an automobile from a manufacturer.

Distribution of Goods. [illegible]

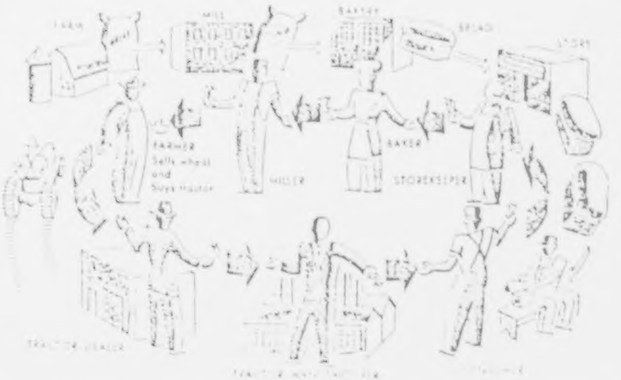
[illegible]

dered them before they were made. Today, most of our food, clothing, and other products are made in quantities long before any individual consumer has any thought of buying them. Goods usually go from the producer to a *wholesaler*, who is a person or a company dealing in large quantities of goods.

A wholesaler of potatoes buys potatoes from farmers in carload lots. Few grocers could handle such large quantities of potatoes, since they would spoil before they could be sold. The wholesaler sells smaller quantities to retailers. The grocer can buy a dozen sacks of potatoes from the wholesaler's carload and sell them to his customers, who are the consumers.

Storage is another process involved in distribution. Foods and other products which may spoil are stored in cold-storage warehouses. Eggs, meat, seafood, and fruits and vegetables are often stored for several months until they can be sold.

[illegible]



The Circles of Distribution [illegible] diagram showing how goods, services, and income move from place to place and from person to person. The outer circle shows how wheat finds its way from the farmer to the [illegible] in the form of bread. The machinist helps to produce the tractor used by the farmer in growing wheat. The inner circle shows how the money involved in the various sales and purchases passes from hand to hand.

methods eliminate the expense of keeping up wholesale and retail stores by employing house-to-house salesmen. However, the elimination of middlemen does not always guarantee lower prices for the consumer. Sometimes it means only that the producer assumes the costs ordinarily paid by the middlemen. Occasionally, he may be able to reduce the costs of distributing his products, and thus be able to lower prices or even to make larger profits.

Advertising and *packaging* are parts of the distributing process which attempt to increase the flow of goods to consumers. Producers and distributors advertise their products in newspapers and magazines, over the radio, on television, and in outdoor advertising. By packaging their products in attractively designed and labeled boxes, wrappings, or other containers, they make the product more appealing to prospective buyers.

Distribution of Income. Money has been called the oil that makes the wheels of the distribution machine run smoothly. The producer must have money to invest in plants, machinery, and labor to make his product. The wholesaler, retailer, and others engaged in production and in distribution must have money to engage in their part of the distribution process. The consumer must have money to buy the products. Most consumers obtain this money by working to produce goods.

[illegible] If farmers do not get enough money for their products, they cannot buy manufactured goods. An economic depression may take place if the distribution process breaks down.

[illegible]

Distribution of Services. [illegible]

Problems of Distribution. [illegible] not enough goods can be produced at all times at a

THE REAL STORY

The percentage share of National Income earned by Agriculture annually, as measured net farm income, from 1929 through 1984		The [illegible] of Government bonds and other investments of all U.S. commercial banks, in ratio to total deposits, from 1929 through 1984	Net Public and Private Debt - USA	Flow of Funds*
1929	[illegible]	[illegible]	$ 190.9	
1932	[illegible]	[illegible]	174.6	
1933	[illegible]	[illegible]	168.5	
1939	[illegible]	[illegible]	183.2	
1940	[illegible]	[illegible]	189.9	
1941	[illegible]	[illegible]	211.6	
1942	[illegible]	[illegible]	259.0	
1943	[illegible]	[illegible]	313.6	
1944	[illegible]	[illegible]	370.0	
1945	[illegible]	[illegible]	406.4	
1946	[illegible]	[illegible]	379.4	
1947	[illegible]	[illegible]	417.9	
1948	[illegible]	[illegible]	434.0	
1949	[illegible]	[illegible]	446.0	$403.2
1950	5.8%	[illegible]	490.7	429.9
1951	5.9%	[illegible]	525.7	453.2
1952	[illegible]	[illegible]	555.1	485.3
1953	[illegible]	[illegible]	585.5	516.6
1954	[illegible]	[illegible]	612.0	542.6
1955	[illegible]	[illegible]	672.3	583.0
1956	[illegible]	[illegible]	707.5	612.6
1957	[illegible]	[illegible]	738.9	643.0
1958	[illegible]	[illegible]	782.6	682.7
1959	[illegible]	[illegible]	846.2	740.4
1960	[illegible]	[illegible]	890.2	779.9
1961	[illegible]	[illegible]	947.7	827.9
1962	[illegible]	[illegible]	1016.7	888.5
1963	[illegible]	[illegible]	1089.5	955.4
1964	[illegible]	[illegible]	1166.4	1028.2
1965	[illegible]	[illegible]	1257.6	1108.6
1966	[illegible]	[illegible]	1342.7	1184.6
1967	[illegible]	[illegible]	1443.0	1265.3
1968	[illegible]	[illegible]	1585.0	1373.8
1969	[illegible]	[illegible]	1723.0	1490.7
1970	[illegible]	[illegible]	1870.0	1598.9
1971	[illegible]	[illegible]	2050.0	1751.7
1972	[illegible]	[illegible]	2276.0	1941.8
1973	[illegible]	[illegible]	2537.6	2180.9
1974	[illegible]	[illegible]	2769.0	2404.7
1975	[illegible]	[illegible]	2997.0	2619.2
1976	[illegible]	[illegible]		2903.6
1977	[illegible]	[illegible]		3291.4
1978	[illegible]	[illegible]		3767.0
1979	[illegible]	[illegible]		4234.0
1980	[illegible]	[illegible]		4651.7
1981	[illegible]	[illegible]		5174.0
1982	[illegible]	[illegible]		5623.3
1983	[illegible]	[illegible]		6274.0
1984	[illegible]	[illegible]		7131.0
[illegible] *				7335.4

[illegible] 1943-52 [illegible]

Chairman Hubbard. Gordon Samples, thank you very much for your excellent comments. I would say, and I am not trying to get into an argument with Gordon or Thomas Larkins, they know I cosponsored that Harkin's bill; but I would also tell you that after much debate and much thought, the House Agriculture Committee which is comprised of proagriculture, rural Members of Congress such as Ed Jones, of Tennessee, and Glenn English, of Oklahoma, whose chairman from Texas who has been to Mayfield, been to Carlisle County, has been in the district here before were not for the Harkin approach. And—

Mr. Samples. Let me point out, this is not the Harkin approach.

Chairman Hubbard. They were not for the Harkin bill is what I am saying.

Mr. Samples. This is not the Harkin bill.

Chairman Hubbard. I understand. That is something different, right.

Mr. Samples. This is something different, and this has been proven in history will work. It has already worked in other countries and it has worked in this country from 1942 to 1950.

Chairman Hubbard. Let me suggest to you that you give me a two page, no more, two page letter which I would share with each member of the House Agriculture Committee setting your views before them. If you send me more than two pages I fear they will not read it. But if you will put it in two pages, I think they might. I will send it to them.

Mr. Samples. Well, I will send you two pages but it is impossible——

Chairman Hubbard. I know that. I know what you are saying.

Mr. Samples [continuing]. To take our complicated economy and reduce it to two pages, and that is what we are dealing with, our whole economy. Not our farm program, our whole economy.

Chairman Hubbard. Send me what you wish and we will give it a try. But I am just saying that some of these Members are not as patient as others. Not as eager to read as others.

Mr. Larkins. Could I say something? To back up what some of the others have said about Government policies and price supports, a farm bureau paper put out that when they reduced the price support of tobacco, that the cigarette companies buying their tobacco from the farmers lowered their prices by the same percentage. About 30 cents a pound. Is that right you tobacco farmers? I do not farm tobacco. But that was the policies that a lot of farm groups were asking for. They got it passed, and the farmers producing that tobacco got the 30 cents a pound less. That is the policy they have been following. That is the way it goes. The seed was planted and they are getting returns on it.

Mr. Samples. Did a pack of cigarettes go down?

Chairman Hubbard. The answer to that of course is no. Thanks to each of you for being here. I hope you can stay while we hear our last group.

Mr. Pettit. Congressman, I would like to enter into the record Mrs. Betty Cook's testimony, who was unable to be with us today. I will file it with your committee.

Chairman Hubbard. We wish Betty Cook could have been here. We wanted as many women as possible to testify. My wife Carol has joined us. We could give her the chance to speak if she would be brief, but we will not give her the chance at the present.

Mr. PETTIT. I will just file this with your secretary here.

Chairman HUBBARD. Please do, file it with the staff and the reporter.

Now, at this time—and I ask you to stay with us if you would to hear our last panel. Steve Story; Wayne McAtee; Don Frick; Charles Magness; R.O. Wilson; Austin Voorhees; would you be making your way to the front? Harold Rice; Ray Schlader; and Dave Hornback. Would you all mind to come up and take seats here?

Thank you all for being with us. Some of you have been here all day and probably would like to leave. Let me just ask you this, and I am not trying to be unfair to anybody, but am I correct that Austin Voorhees, Harold Rice, Don Frick, and R.O. Wilson have been here the entire time? You have not had a break of any kind, is that right? You have been here since 9 a.m., am I right? Am I correct that Wayne McAtee, Charles Magness, Ray Schlader, and Dave Hornback came in late and have had a chance to eat lunch? Is that right?

All right, we will hear from you now. What about Randall Burchard. Is Randall Burchard here? Randall, you come up and join this group. Where is Wayne McAtee? I do not believe he is here.

First we will hear from Austin Voorhees of the city of Hickman. He is on the board of the bank down there and owns a farm and a beautiful home overlooking the Mississippi River.

STATEMENT OF AUSTIN B. VOORHEES, HICKMAN, KY

Mr. VOORHEES. Thank you, Mr. Chairman. It indeed is a pleasure to appear before this subcommittee. I am Austin B. Voorhees, a resident of Hickman, KY. I operate or supervise 1,700 acres of farmland in Fulton County.

Chairman HUBBARD. 1,700 acres.

Mr. VOORHEES. Correct. I am an outside director of the Citizens Bank. This statement that I am reading was dated November 22, 1985. And as has been mentioned previously, quite a bit has happened since that time in Congress.

These statements that I make have been made several times this morning and this afternoon. But I feel that they can not be reemphasized enough.

I began farming in 1951 and have experienced the good years and the bad years, the wet years and the dry years. Naturally I am deeply concerned about the economic problems of agriculture and agribusiness. Without a doubt, all popular questions have been expressed over and over again today concerning the question of farming and the farm situation.

I would like to express my opinions concerning the agriculture crisis. Management, good or bad, should determine who remain in farming. I would suggest three types of farm managers. There are those who are successful and prosper in their operation. In my opinion, these farms should not be subsidized by government programs. I think that would include maybe the 25 percent that Mr. Hale mentioned during in the previous group's testimony. Those who are successful and those who have a patriotic interest in this country I think should feel that they are not entitled to subsidies. And those farms that are inefficient and failed at farm management, I feel that these farms should not be subsidized by government programs.

And then there are those who are good managers, prudent and conservative in their lifestyles, but through no fault of their own are facing serious financial problems. These are the farmers who deserve help and should be helped by some government assistance programs. Part-time farmers whose major income is not from agriculture and professional people whose farmland is used as a tax shelter should not be subsidized in my opinion.

Here is one thing that I do not recall having been mentioned about which I feel very strongly. Federally owned land should not be used to produce surplus commodities, whether it be Federal, State, or local government. They are competing or putting surplus commodities on the market which in turn increase the overall surplus. For example, some of the farmlands in this area that were privately owned, have land that was private farmland, which some of it now is back and producing surplus commodities. In an indirect way those of us in farming are subsidizing some of these programs. Also, I would feel that in quite a few cases user fees should be adhered to.

Current prices of farm commodities are indeed a major cause of the present financial crisis of farmers. For example, the average price of soybeans was $8.62 per bushel from October 16 though November 11, 1980. This year the average price was $5.18 for the same period of time. For 20,000 bushels of soybeans, that is a loss of $68,860 in income. So you can imagine what this means.

In addition, there was substantial increase in the cost of producing 20,000 bushels of soybeans in 1958. Over production is another major cause of the financial crisis of our Nation's farmers. I would gladly volunteer to set aside a percent of my cultivated acres without a subsidy repayment in order to reduce our farm surpluses. I am critical of the apparent lack of concern by agribusiness over the plight of the American farmer. When we go to buy a part for a tractor or an implement on the farm, it seems like we are buying gold. Also the chemical cost seems to be prohibitive.

Just last week during a conversation I had with a retired production credit manager who served for 37 years, he listed the following causes for our present agriculture problems.

No. 1, loss of markets.

No. 2, efficiency of the American farmer causes over production.

No. 3, increased costs of farm inputs as prices decline.

No. 4, high interest rates.

Lending institutions are not blameless for the plight of the American farmer. Easy credit has certainly been the reason for many farm bankruptcies. These institutions have been, in the past, over anxious to make loans. They have shown a lack of concern as to ability of the borrower to service his debt.

The Agricultural Stabilization Conservation Service and Soil Conversation Service should be more selective in their programs. For example, hobby farmers should not participate in these programs. I realize the complexities of the farm situation, but I am optimistic that the American farm family will continue strong as in the past.

Again, let me express my appreciation for appearing before this committee. Thank you.

[The following letter was received from Mr. Voorhees for inclusion in the record:]

AUSTIN B. VOORHEES,
Hickman, KY, December 20, 1985.

SUBCOMMITTEE ON GENERAL OVERSIGHT AND INVESTIGATIONS OF THE HOUSE BANKING COMMITTEE,
Room B-304, Rayburn House Office Building, Washington, DC.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: I am Austin B. Voorhees, a resident of Hickman, Kentucky. I operate or supervise 1,700 acres of farm land in Fulton County. I am an outside director of The Citizen Bank.

I appreciate the opportunity to appear before this subcommittee.

I began farming in 1951 and have experienced the good years, the bad years, the dry years, and the wet years.

Naturally I am deeply concerned about the economic problems of agriculture and agri-business. Without a doubt all possible questions and solutions have been expressed over and over again. Not being able to find new questions or answers, I would like to express my opinions concerning the agriculture crisis.

Management, good or bad, should determine who will remain in farming. I would suggest three types of farm managers. These are those who are successful and prosperous in their operation. These farms should not be subsidized by government programs. THere are those who are inefficient and failures at farm management. These farms should not be subsidized by government programs, and then there are those who are good managers, prudent and conservative in their life styles, but through no fault of their own are facing serious financial problems. These are the farmers who deserve and should be helped by some government aid program.

Part-time farmers whose major income is not from agriculture and professional people whose farmland is used as a tax shelter should not be subsidized.

Federally owned land should not be used to produce surplus commodities.

Current prices of farm commodities are indeed a major cause of the present financial crisis of farmers. For example, the average price for soybeans was $8.62 per bushel from October 16 through November 11, 1980. This year the average price was $5.18 for the same period of time. For 20,000 bushels of soybeans that is a loss of $68,860.00 in income. In addition, there was a substantial increase in the cost of producing 20,000 bushels of soybeans in 1985.

Overproduction is another major cause of financial crisis of our nation's farmers. I would gladly volunteer to set aside a percentage of my cultivated acreage without a subsidiary payment in order to reduce our farm surpluses.

I am critical of the apparent lack of concern by the agri-business over the plight of the American farmer.

Just last week during a conversation with a retired Production Credit Association manager who served for 37 years, he gave the following causes for our present agriculture problems: 1. Loss of markets; 2. Efficiency of the American farmer causes over-production; 3. Increased costs of the farm inputs as prices decline; 4. High interest rates.

Lending institutions are not blameless for the plight of the American farmer. Easy credit has certainly been the reason for many farm bankruptcies. These institutions have been in the past overanxious to make loans. They have shown a lack of concern as to the ability of the borrower to service his debt.

The Agricultural Stabilization Conservation Service and Soil Conservation Service should be very selective in their programs. For example, "hobby farmers" should not be participants in these programs.

I realize the complexities of the farm situation, but am optimistic that the American farm family will continue strong as in the past.

Again, let me express my appreciation for the opportunity to appear before this subcommittee.

Thank you,

AUSTIN B. VOORHEES.

Chairman HUBBARD. Thank you, Austin Voorhees. I appreciate you, Austin has been to Washington from time to time trying to help farmers. He is active in the business interests of the Mississippi River, especially affecting his city of Hickman. He is on the board of directors of many groups including—what is the name of the group, the Ohio Valley——

Mr. VOORHEES. Lower Mississippi Valley Flood Control Association.

Chairman HUBBARD. Thank you. Lower Mississippi Valley Flood Control Association.

At this time let me call on, in addition to prominent Austin Voorhees of Hickman, a very prominent man from Louisville, KY who is with us, and his schedule is busy. He has actually done all of us a favor by coming here all the way from Louisville, KY. Mr. Ray Schlader is president and chief executive officer of the Federal Land Bank and Federal Intermediate Credit Bank of Louisville, KY. I regret you could not be here while Congressman Stan Parris of Virginia was here earlier. Congressman Parris is the ranking minority member of this subcommittee and he was with us for about 3 hours but had to return to Louisville to catch a flight. Knowing that you have come that distance, we are so glad you are here. We regret the Courier-Journal did not consider this hearing important enough to cover it, but they do not cover too much what happens in western Kentucky. They only have one reporter located west of I-65 in our State. But you do us an honor by being here and we are anxious to hear your comments about the Federal Credit System.

And WNGO, a Mayfield radio station, is also anxious to hear your remarks. Our newspaper people were here this morning from the Paducah Sun, the Mayfield Messenger, and the Tribune-Courier over at Benton. We wish that we had more media here to cover your remarks, but we will get it over WNGO I hope through Al McClain. Thank you for being here, Mr. Schlader.

STATEMENT OF R.C. SCHLADER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FEDERAL LAND BANK AND FEDERAL INTERMEDIATE CREDIT BANK OF LOUISVILLE, KY

Mr. SCHLADER. It is a pleasure to be here, Congressman. We are disappointed we could not be here this morning as well.

I would like to cover in my remarks a broad perspective of the problems in agriculture from a lender's standpoint, and I think it does add to the discussion we heard earlier in the previous panel.

It is a traumatic situation that we all find ourselves in today, because as the industry, agriculture, affects the farmers, it also affects their lending institutions, whether it is the Farm Credit System or whether it is commercial banks that are represented here as well.

Farmers are having severe difficulties servicing their loans. In turn, the severity of their problems are having a significant impact on the Farm Credit System, which is experiencing large loan losses and, in turn, I think all of us know that we are seeking and have received approval, subject to the President's signature, has received financial assistance from the Government.

As the farming economy continues to decline and as farm lenders experience unprecedented losses, we think American agriculture stands at the crossroads.

Given these factors, our Farm Credit System is vitally concerned about the health of our agricultural industry. When farmers hurt, all segments of the farming community suffer. We heard that earlier today. The Farm Credit System, as well as the district banks and associations, are no exceptions.

I think we can all agree that the current distress among farmers and farm lenders is rooted in the inflationary decade of the seventies. The sharp reversal in the 1980's of those inflationary trends has hampered the ability of farmers and their lenders to adjust to such an abrupt change. Throughout the 1970's, farmers faced rapidly expanding exports, accelerated inflation and very low-to-negative real interest rates. Farmers responded by borrowing heavily to invest in new capital equipment, to adopt new production technologies and to purchase increasingly expensive farmland. Farm debt rose 10 percent a year. But land values rose even faster, providing the rationale, as well as the security, for farmers and lenders to expand and roll over the debt.

In the 1980's, we have experienced a dramatic reversal in those trends. We have seen an erosion in the agricultural export market. Farm operating costs have increased. Cash-flow has been tight for farmers. Land values, which depend on both current farm income and prospects for future income growth, have declined to record levels. According to USDA data, over 215,000 of our Nation's farmers have debt-to-asset ratios above 70 percent and negative cash-flow. They are in the greatest jeopardy of losing their farms in the next 18 months. Obviously, many farmers can no longer sustain their debt levels. Those farmers whose solvency depended on continuously rising land values or who pursued an aggressive expansion strategy have been pushed to insolvency.

Today, the scenario for farmers is bleak: High interest rates, heavy debt loads, low crop prices and declining land values have driven many of our farmers out of business. Using figures provided by the USDA, the Federal Reserve Bank of Chicago earlier this year projected that 18 percent of our Nation's farmers, those whose debts amount to 40 percent or more of their assets, are particularly vulnerable to financial stress.

In a major study conducted by our Farm Credit System, entitled "Project 1995—A Look into the Future," it is projected that the number of farms will decline by 1 percent a year for the next 10 years due to adverse conditions which have been a fact of life in agriculture through most of the 1980's. Faced with these and other grim statistics, the future does not look bright for our American farmers.

The problems facing farmers have, in many cases, created a domino effect on farm lenders. The same adversity which has impacted our farmers has carried through to the Farm Credit System. Nonperforming loans and property acquired through foreclosure have increased substantially. Although we have seen a small decline in the number of land bank acquired properties for Kentucky this year, from 80 on September 30, 1984, to 73 in September of this year, districtwide the number has increased about 100 over this past year.

In Kentucky, we have some 263 loans that are classified in the nonaccrual status for a total of about $114 million. Obviously, if farmers cannot make payments or even their interest payments on these loans, the lender is also going to feel the pinch. This brings me to the other side of the farm credit issue, the problems facing the lender.

As farmer asset values decline, lenders have less adequate security for new or existing loans. If too high a proportion of the lender's loan portfolio becomes nonperforming loans, then the lender may face failure or reorganization.

With 31.8 percent of the farm debt, the Farm Credit System is experiencing extraordinary economic stress, as most of you are aware. The System wrote off some $116 million from 1970 to 1979. But, it wrote off $760 million in the period from 1980 to 1984, and current figures for the third quarter indicate that the situation has worsened significantly this year. The Farm Credit System expects to issue a negative earnings report at the end of this year, the first time in its 68-year history.

Chairman **HUBBARD**. Repeat that if you would.

Mr. **SCHLADER**. The Farm Credit System expects to issue a negative earnings report at the end of this year, the first time in its 68-year history.

The figures for the fourth district, which comprises Kentucky, Tennessee, Ohio, and Indiana, reflect that we are experiencing the same as the national trend in credit: A $109 million income loss on agricultural loans for the first 9 months in our bank this year; $659 million worth of nonaccruing loans; a drop in land bank risk-fund reserves from $267 million in 1984 to $20 million at the end of September this year, and I could go on and on.

Some people may argue that the banks and associations made decisions which brought on the very problems we are trying to attack today. There is no doubt that farm lenders made some weak loans. However, most of the loans in the now troubled status were sound loans when they were made, both from the standpoint of collateral and repayment, and most of them were made to good farmers. Furthermore, farmers and farm lenders on the whole did not mismanage rural America. Bad loans are not the cause of the serious, underlying problems in agriculture which we are all trying to work to solve. In testimony by Farm Credit System officials during recent hearings on financial assistance, it was brought out across the board that no one could have forecast the dramatic devaluation on the balance sheet of U.S. agriculture. And no financial institution with its assets fully in that industry could have been capitalized high enough to weather the shock waves that are moving through the farming industry.

However, the farmer/directors who sit on our district board believe that we can take a positive step forward in minimizing the problems experienced by farmers and their cooperative farm credit associations. They feel that this district can achieve this goal through the consolidation of our FLBA's into a single, districtwide FLBA, and the consolidation of our PCA's into a single, districtwide PCA. We look at this step as one of being a self-help plan.

Initially, our district was destined to have 28 associations sharing common management. However, at the close of 1984, it was apparent that agriculture, as a whole, would continue to experience the stress which had dominated the industry since the early 1980's. In recent years, PCA's in representing the short and intermediate term sector throughout the system, and particularly in our district, had experienced significant financial difficulties. As I mentioned earlier in my testimony, a similar situation began to surface in 1984 with our land banks and their generally longer term portfolio.

As a result of the continuing deterioration in the agriculture credit picture, our district board modified its original 28 association plan and decided to pursue a districtwide FLBA and a districtwide PCA for our district, which will provide we think the following benefits:

First, the plan will centralize our FLBA capital into a districtwide FLBA; and all our PCA capital into a centralized districtwide PCA, thereby making it easier to dispatch capital to areas in the district where weaknesses appear; and, second, the plan would streamline the operation, saving money resulting from duplication of facilities and staff. In addition, a farmer could come to one office and talk to one loan officer about his total credit needs.

The loan-making activities of the one association in the fourth district will be handled through our 28 service centers, each with its own board of directors elected by stockholders. Since our FLBA's and PCA's are operated on the cooperative principle, it is vital that we maintain the grassroots input of our stockholder/members on December 12 of this year, 83 of our 91 FLBA's and PCA stockholders approved by 80 percent the consolidation of our associations into one districtwide FLBA and districtwide PCA.

Our district board views the plan of a self-help measure, not only for our district but for one which is extremely important to our whole, in order to be successful in demonstrating to the Federal Government that it can be responsible for its own problems and it can act accordingly. In turn, I think that Congress' recent decision to aid the troubled system is a signal that it wants our system to remain a reliable source of credit to the farmers in Kentucky, as well as to the rest of the Nation.

Most farm credit districts in our country are now in the process of adopting some type of a scaled down FLBA and PCA network. Consolidation is viewed as the most sensible step we can take at this time to help ourselves, while we preserve our ability to remain a viable source of credit for the farmer/borrowers we serve, and the farmers in our district have spoken. What makes our December 12 vote in favor of consolidation so significant is the fact that we had a larger percentage of stockholders voting in this consolidation referendum than in any other farm credit district that has taken this important issue to their stockholders. This tremendous turnout emphasizes the significance of this historic vote. The farmer is showing that they are willing to do everything in their power to help themselves survive these tough economic times. And they are to be commended, we think, for their efforts.

We want to assure the capital strength and earning capacity of FLBA's and PCA's by making sure that credit will continue to be made available to eligible borrowers at reasonable rates. We also want to be sure that farmers will continue to have access to the public financial markets. This self-help plan does not come with guarantees. If the agricultural environment continues to deteriorate, consolidation may not be enough. But it is the only available alternative in our district today.

We are confident in this district that, through consolidation, we can take a giant step in putting our affairs in order and that farmers will weather the crisis that has hit them and the ag-businesses that will continue to serve them. By doing so, we feel that we will become a stronger, but a leaner source of credit for the 137,000 farmers in our district.

We believe that consolidation will provide some needed financial strength and efficiencies that will contribute to the improvement of our credit quality and our delivery system to farmers. To borrow a phrase from one of America's major corporations, "Farmers are our business—our only business", and we will be in business to serve them. But the bottomline is: a healthy farm economy goes hand-in-hand with a healthy Farm Credit System. Thank you.

[The prepared statement of Mr. Schlader follows:]

PREPARED STATEMENT OF R.C. SCHLADER, PRESIDENT AND CEO THE FEDERAL LAND BANK OF LOUISVILLE AND FEDERAL INTERMEDIATE CREDIT BANK OF LOUISVILLE

Mr. Chairman and guests: It's a pleasure to be here today to discuss the current credit crisis in agriculture, as it relates to farmers and their lending institutions. I can't think of a more timely topic given the current problems in agriculture. Farmers are having severe difficulties servicing their loans. In turn, the severity of their problems is having a significant impact on the Farm Credit System, which is experiencing large loan losses and, in turn, is seeking financial assistance from the Federal Government.

In addition to the problems faced by farmers and their lenders, Congress and the Reagan administration officials are openly exchanging their ideas on what the new farm policy should contain. In some cases, they are making proposals that would cut at the very heart of the U.S. farm economy. As the debate over the farm bill continues—as the farming economy continues to decline—and as farm lenders experience unprecedented losses, American agriculture stands at the crossroads.

Given these factors, the Farm Credit System is vitally concerned about the health of the U.S. agricultural economy. When the farmers hurt, all segments of the farming community suffer. The Farm Credit System, as well as our Fourth District banks and associations, are no exceptions.

I think we can all agree that the current distress among farmers and farm lenders is rooted in the inflationary decade of the seventies. The sharp reversal in the 1980's of those inflationary trends has hampered the ability of farmers and their lenders to adjust to such abrupt change. Throughout the 1970's, farmers faced rapidly expanding exports—accelerated inflation—and very low to negative real interest rates. Farmers responded by borrowing heavily to invest in new capital equipment, to adopt new production technologies and to purchase increasingly expensive farmland. Farm debt rose 10 percent a year. But land values rose even faster, providing the rationale, as well as the security, for farmers and lenders to expand and roll over the debt.

In the 1980's, we have experienced a dramatic reversal in those trends. We've seen an erosion in the agricultural export market. Farm operating costs have increased. Cash flow has been tight for farmers. And land values—which depend on both current farm income and prospects for future income growth—have to decline to record levels. According to USDA data, over 215,000 of the Nation's farmers have debt-to-asset ratios above 70 percent and negative cash flow. They're in the greatest jeopardy of losing their farms in the next year to 18 months. Obviously, many farmers can no longer sustain their debt levels. Those farmers whose solvency depended on continuously rising land values or who pursued an aggressive expansion strategy have been pushed to insolvency.

Today, the scenario for farms is bleak: high interest rates, heavy debt loads, low crop prices and declining land values have driven many operators out of business. Using figures provided by the USDA, the Federal Reserve Bank of Chicago earlier this year projected that 18 percent of the Nation's farmers—those whose debts amount to 40 percent or more of their assets—are particularly vulnerable to financial stress.

In a major study conducted by the Farm Credit System entitled "Project 1995—A Look Into the Future," it is projected that the number of farms will decline by one percent a year for the next 10 years due to the adverse conditions which have been a fact of life in agriculture through most of the 1980's. Faced with these and other grim statistics, the future does not look bright for the American farmers.

The problems facing farmers have, in many cases, created a domino effect on farm lenders. The same adversity which has impacted our farmers has carried through to the Farm Credit System. Non-performing loans and property acquired through foreclosure has increased substantially. Although we have seen a small decline in the number of FLBA acquired properties for Kentucky this year—from 80 on September 30, 1984, to 73 on September 30, 1985—districtwide the number has increased from 268 in 1984 to 372 in 1985. These 372 acquired properties represent $59 million. The amount of FLBA loans in non-accrual status—those are loans in which the interest collection is doubtful—have increased in our four-State area of Indiana, Kentucky, Ohio and Tennessee from $81 million in 1984 to $545 million in 1985. In Kentucky, we have 263 loans classified in the non-accrual status for a total $114 million. Obviously, if farmers cannot make payments—even interest payments—on their loans, the lender is also going to feel the pinch. This brings me to the other side of the farm credit issue: the problems facing the lender.

As farmers' asset values decline, lenders have less adequate security for new or existing loans. If too high a proportion of the lender's loan portfolio becomes nonperforming loans, then the lender may face failure or reorganization.

With 31.8 percent of the farm debt, the Farm Credit System is experiencing extraordinary economic stress, as most of you are aware. The system wrote off $116 million during the period 1970-1979. But, it wrote off $767 million in the period 1980-1984, and current figures for the third quarter indicate that the situation has worsened significantly in 1985. The Farm Credit System expects to issue a negative earnings report at the end of 1985—the first time in its 68-year history.

The figures for the Fourth District reflect the national trend in farm credit: a $109 million income loss on agricultural loans for the first nine months of 1985; $659 million worth of nonaccruing loans; a drop in land bank risk-fund reserves from $267 million in 1984 to $204.9 million by September 30, 1985. I could go on and on.

Some people may argue that the banks and associations made decisions which brought on the very problems we are trying to attack today. There is no doubt that farm lenders made some weak loans. However, most of the loans in the now-troubled status were sound loans when they were made, both from the standpoint of collateral and repayment. And most of them were made to good farmers. Furthermore, farmers and farm lenders on the whole did not mismanage rural America. Bad loans are not the cause of the serious, underlying problems in agriculture which we are all working to solve. In testimony by Farm Credit officials during recent hearings on financial assistance, it was brought out across the board that no one could have forecast the dramatic devaluation in the balance sheet of U.S. agriculture. And no financial institution with its assets fully in that industry could have been capitalized high enough to weather the shock waves that are moving through the farming industry.

However, the farmer/directors who sit on the Fourth Farm Credit District board of directors believe that we can take a positive step forward in minimizing the problems experienced by farmers and their cooperative farm credit associations. They feel that the district can achieve this goal through the consolidation of Federal Land Bank Associations into a single, districtwide FLBA, and the consolidation of Production Credit Associations into a single, districtwide PCA. We look at this step as a self-help plan.

Initially, our district was destined to have 28 associations sharing common management. However, at the close of 1984, it was apparent that agriculture, as a whole, would continue to experience the stress which had dominated the industry since the early 1980's. In recent years, PCA's in representing the short- and intermediate-term sector throughout the system, and particularly the Fourth District, had experienced significant financial difficulties. As I mentioned earlier in my testimony, a similar situation began to surface in 1984 with the land banks and their generally longer-term portfolio.

As a result of the continuing deterioration in the ag credit picture, our district board modified its original 28-association plan and decided to pursue one districtwide FLBA and one districtwide PCA for the Fourth District, which will provide the following benefits:

The plan will centralize all FLBA capital into one districtwide FLBA; and all PCA capital into one districtwide PCA, thereby making it easier to dispatch capital to areas in the district where weaknesses appear; and

The plan will streamline the operation, saving money resulting from duplication of facilities and staff. In addition, farmers could come to one office and talk to one loan officer about his total credit needs.

The loan-making activities of the one association in the Fourth District will be handled through 28 service centers, each with their own boards of directors elected by stockholders. Since our FLBA's and PCA's are operated on the cooperative principle, it is vital that we maintain the grassroots input of our stockholder/borrowers. On December 12, our FLBA and PCA stockholders districtwide approved by 80 percent the consolidation of our associations into one districtwide FLBA and one districtwide PCA. Under the plan, the rights of these farmers to elect their service center, districtwide association and district board members will be preserved under the consolidated structure.

Our district board views the plan as a self-help measure, not only for our district, but one which is extremely important if the Farm Credit System is to be successful in demonstrating to the Federal Government that it can be responsible for its own problems and act accordingly. In turn, I think that Congress' recent decision to aid the troubled system is a signal that it wants the system to remain a reliable source of credit to the farmers in Kentucky, as well as the rest of the Nation.

Most Farm Credit Districts in the United States are now in the process of adopting some type of scaled down FLBA and PCA network. Consolidation is viewed as the most sensible step we can take at this time to help ourselves, while we preserve our ability to remain a viable source of credit for the farmer/borrowers we serve. And the farmers in the Fourth District have spoken. What makes our December 12th vote in favor of consolidation so significant is the fact that we had a larger percentage of stockholders voting in this consolidation referendum than in any other Farm Credit District that has taken this important issue to their stockholders. This tremendous turn-out emphasizes the significance of this historic vote. The farmer/stockholders are showing that they are willing to do everything in their power to help themselves survive these tough economic times. And they are to be commended for their efforts.

We want to assure the capital strength and earning capacity of FLBA's and PCA's by making sure that credit will continue to be available to eligible borrowers at reasonable rates. We also want to be sure that farmers will continue to have access to the public financial markets. This self-help plan does not come with guarantees. If the agricultural environment continues to deteriorate, consolidation may not be enough. But it is the only available alternative to our district today.

We are confident in the Fourth District that through consolidation we can take a giant step forward in putting our affairs in order, and that farmers will weather the crisis that has hit them and the agribusinesses which serve them. By doing so, we feel that we will become a stronger, but leaner source of credit for the 137,000 farmers of the Fourth District.

We believe that consolidation will provide some needed financial strength and efficiencies that will contribute to the improvement of our credit quality and credit delivery systems for farmers. To borrow a phrase from one of america's major corporations, "farmers are our business—our only business." And we're in business to serve them. But the bottom line is: A healthy farm economy goes hand-in-hand with a healthy Farm Credit System.

Thank you.

Chairman **Hubbard**. Thank you, Ray Schlader. Ray, as I said earlier, is president and chief executive officer of the Federal Land Bank and Federal Intermediate Credit Bank of Louisville, KY.

You have followed, as best you could, through the media the farm credit bailout bill that we have passed in Congress, both the House and the Senate. The President is expected to sign that bill. Congressman Parris I believe this morning said he had signed it.

The first paragraph of a Wall Street Journal story yesterday says: "Legislation to bail out the ailing Farm Credit System is already improving the big lenders funding strength. But the measure will not halt the System's huge losses." That is a sad thing to read. We were thinking we were helping out. Is that accurate?

Mr. SCHLADER. Well, I think, Congressman, that the market has reacted already. I think when the news came in early September about the losses that our System was about to consider, the market widened immeasureably. In fact our cost of bonds on the market raised to 1¼ percent over the U.S. Treasury's. And with the recent signing of the bill and recent approval in the House and Senate, that spread had narrowed to about 50 basis points. So that is an immediate effect on the cost of money that we provide our farmers. So I think it does have a measurable effect there.

There are two fronts that we see that need to be addressed. One is to lower interest rates for present borrowers and the other is to address the continuing nonperforming loans, a continuing problem that all lenders are going to have as we try to service these in the next year or two.

Chairman HUBBARD. Some of the farmers here today have suggested that the lending agencies should terminate foreclosure and that this should stop. I believe that another farmer suggested that just the interest be collected on these debts. Are these practical?

Mr. SCHLADER. The deferral of foreclosures, Congressman, could be done. But we have to pay the interest on our bonds to our investors, and these farmers would have to pay it. That is part of our cooperative philosophy. We do not have any free money, and if you put a moratorium on farm foreclosures, and the equity of that operation continues to erode, it impacts the lending institutions with greater losses. That could be balanced if the paying borrowers want to pay the difference, and at this point we do not believe that farmers who can pay should have to absorb the cost of those additional loan losses.

Chairman HUBBARD. One of our witnesses earlier said that one solution would be for the Federal Government to buy the land of these farmers who are in deep financial trouble and see to it that no crops are grown on it. That would help in the following ways: one, it would take care of the debt the farmer owes to the Federal lending agency; and two, it would cause that land not to produce, with one of our problems being overproduction. Does that make any sense?

Mr. SCHLADER. Earlier this year, Congressman, our System did propose a very similar program to move the nonperforming loans aside, one which the System plus the Federal Government might consider overriding. But I think as the financial assistance package was being developed, that was put on the shelf.

I think as we look at the financial assistance criteria, it appears that there will be an opportunity for lending institutions to get government assistance to do just that, to move aside some of the nonperforming loans within their own control aside and not to impact the other paying loans with that higher interest rate.

Chairman HUBBARD. What, if you could answer it in one sentence or one paragraph, what is it going to take to turn these negative trends around as far as the Farm Credit System goes?

Mr. SCHLADER. We think there are going to be a number of them. The current farm bill may have some impact; the strong dollar where we are not competitive in the world markets. We have done a fantastic job of producing, but we have not done a good job, as we heard earlier today, of marketing. We need to find some way to reduce the trade barriers so that we could market what we raise.

Another major problem is the continued decline in land values. If we could somehow find a bottom to that decline and encourage people who we think are waiting to pay some additional land to come back in and buy some of the land that is on the market today; I think that would have a tremendous effect or impact on our system.

Chairman HUBBARD. If you would, Harold Rice and R.O. Wilson, Randall Burchard, Don Frick, without going at this point to another one of our farmers who are here to help us out with information; let me turn over here to David Hornback and Charles Magness. Now Dave Hornback is the head of the Federal Land Bank of Mayfield. Charles Magness for many years has been the head man over here at the Jackson Purchase Production Credit Association. Both of these agencies are a big help to our farmers. But I know that the PCA has a lot of loans that could be better. Is that the kindest way to put it? Right here in Mayfield and they are representing this Purchase Area. What would you all add to what Ray Schlader has said from the Purchase Area standpoint, Dave Hornback?

STATEMENT OF DAVID HORNBACK, PRESIDENT, FEDERAL LAND BANK ASSOCIATION OF MAYFIELD, KY

Mr. HORNBACK. Mr. Chairman, I feel like the last person on the Academy Awards. You have probably heard all of this about 10,000 times at least today. I had a prepared statement that was sent to you earlier. I have altered those comments somewhat.

I do not think there is a lot to add. I think there are a lot of points previously made that need to be reemphasized. We are all aware of the depression in the American farm economy. I think someone characterized the difference between a recession and a depression. If you had a job it is a recession; if you do not have a job it is a depression. I think that pretty well sums it up.

The inflationary 1970's that Ray mentioned where Government lenders and borrowers all abused commonsense in credit extensions have been followed by the 1980's. The 1980's have had its woes—the droughts, increasing input costs, increasing interest rates and reduced commodity prices. The buy-now, pay later syndrome has caught up with us, and it has literally choked the life out of the farm economy.

Now the farmers have known for several years that things were bad all over, but the problem that they were facing was not really addressed. Now that the financial institutions are being affected, the problem has finally been realized.

The Farm Credit System and commercial agricultural banks are simply a mirror image of the people that they serve. Our financial difficulties must be addressed or we could have a financial catastrophe the likes of which have not been seen since the Great Depression. But we must be sure that whatever financial package does come about, it does accomplish two tasks. Number one, it must protect the financial integrity of the institution; and second, it must benefit the person who is actually seeing the problem and that is the farmer, in other words, the Farm Credit System. Even though we do have our financial problems and agricultural commercial banks have their problems, we are simply symptoms of a larger problem which exists out there. You cannot simplify the problem. It is extremely complex. But in my inept effort to do so, you really boil down to two particular things. There is not enough income to service the debt. Between 1970 and 1982 the farm debt went from some $50 billion to $212 billion. So those two areas have to be addressed. I see nothing at this point that would indicate that commodity prices will increase, at least not over the next several years.

If we do not address that point, then the other end of the spectrum must be looked at, that being the interest rate and the actual debt itself. Interest rates must come down, and they must do so immediately. A year from now or 2 years from now will be too late.

But addressing the interest rate alone is a short term solution to a long-term problem. I think the debt itself has to be looked at. We are talking about a $212 billion farm debt. That farm debt is more than the national debt of many nations. It appears to be excessive for the amount of income that can be generated by the farm economy.

Interest rates are one thing, those have been addressed. One area that may not have been addressed, I am not sure——

Chairman HUBBARD. As a member of the Banking Committee, how would you, as my hometown expert from the Federal land bank, suggest we get the interest rates down? I am not trying to be unfair.

Mr. HORNBACK. I understand your question.

Chairman HUBBARD. It is a difficult question.

Mr. HORNBACK. It is a very fair question.

Chairman HUBBARD. Difficult question.

Mr. HORNBACK. I think Senator Mitch McConnell has proposed legislation or at least passed along some ideas in the area of interest rates which deserves some consideration. There are points in his proposals which could be debated until you are blue in the face, quite frankly. But it does have some merit. It calls for a buy down of interest rate up to a 5-percent maximum, as well as a reduction in the actual debt that is out there. The buy down in the interest rate would be a joint effort between the Federal Government, the State government and the actual lender itself, and there are certain criteria that a particular farmer has to meet in order to qualify for that program. I think that deserves some attention. It seems to be a viable alternative at reducing the interest rate so that no one particular entity has to bear the entire responsibility nor the cost of it.

Also the individual, and this pertains only to the Farm Credit System, if you were writing down above 15 percent of that loan, you could forgo that 1-percent reduction in the interest rate. If you wrote less than 15 percent down, then you had to comply with the one percent interest rate reduction. Anything that you come up someone is going to shoot holes in it. That is normal. But I think Senator McConnell's proposal along with the bailout program that has already been addressed by Congress, if those two items are looked at carefully, I think there are some answers that can be found.

[The following letter with attached added comments was received from Mr. Hornback for inclusion in the record:]

FEDERAL LAND BANK ASSOCIATION OF MAYFIELD,
Mayfield, KY, November 18, 1985.

Hon. CARROLL HUBBARD, Jr.,
Chairman, House Subcommittee on General Oversight and Investigations, Room B-304 Rayburn House Office Building, Washington, DC.

Please accept this as my formal response to the subcommittee meeting to be held in Mayfield, Kentucky, on December 20, 1985.

To say that the agricultural economy is in the throes of a recession is an understatement. To put it bluntly, agriculture is in a depression, the likes of which we have not witnessed since the 1920's and early 1930's.

The cause of this situation can be traced to several reasons. First of all, the strong dollar, which is advantageous to certain segments of the economy, is a detriment to agriculture in that it places constraints upon agricultural exports. Commodity prices tend to remain low during periods when the U.S. dollar is strong in relation to other currencies. When commodity prices remain low the ability of the farmer to make a profit deteriorates.

We thus find ourselves in a position where farm profits are minimal. To place added stress upon agriculture, the interest rates have escalated over the past four or five years to the point that the debt load agriculture has incurred cannot be serviced adequately. When debt cannot be serviced, then foreclosure, voluntary liquidation or other means of liquidation can occur. With profits down and cash flow restricted, the land values then deteriorate to the level that the agriculture lender finds himself in an undersecured position. Losses to the lender and the farmer then result from land sales. In order to try to recuperate some of the losses, the lender then may increase interest rates and the vicious cycle then feeds upon itself and continues on its path of self destruction.

The 1970's and early 1980's saw both farmer and lender alike using credit based upon the expectation that inflation could continue. Funds were loaned upon (in many instances) either equity in real estate or *anticipated* equity with little attention paid to cash flow and ability to repay borrowed funds. Now that the equity has diminished through depressed land values, the weak cash flow has become more of a concern.

We find ourselves in a position where profits in farming are either nonexistent or minimal, equity positions have deteriorated due to land values declining, and interest rates have escalated to the point where debt cannot be serviced. The resulting problem for agriculture is monumental and has far reaching implications. The agriculture lending community finds itself stressed. This community involves the Farm Credit System and other commercial banks who have a deep involvement with farming. This stress has been well documented in recent months in the *Wall Street Journal*, *Progressive Family*, and various other publications as well as television reports.

Recently, the Farm Credit System approached Congress concerning financial assistance for the nationwide farm lender. I must admit that the Farm Credit System is indeed in need of help; of this there is no doubt. It would be remiss of me, however, if I did not stress one point. The Farm Credit System's plight is a mirror-image of the plight of agriculture in general. The System is only a symptom of the real problem. To place money into the system (or any institution) without insuring that the result is of real benefit to the person in trouble would not be a solution to our problems in agriculture. Until the farmer can make a profit, all other efforts will fail. One cannot attempt to save an institution without saving those people who make up the institution. To save an institution without saving the farmer is an effort in futility.

To place it bluntly, this nation's farm debt cannot be repaid at current interest rates. The farmer and the lender overreacted to "good times" and the pendulum has swung to the opposite environment. We as a nation are at the point of making some major decisions with regard to agriculture in this country. We must consider a "write-down" of outstanding debt and a lowering of interest rates, or agriculture in this country cannot survive. This is a drastic step but we are in drastic times. Innovation and long term solutions are needed. We cannot solve long term problems with short term, "quick fix" solutions. History has shown us that infusion of dollars generally does not solve problems; rather, it creates more. Farmers do not need more credit. They actually need a reduction of what they owe. Agricultural debt in this country must be reduced.

Due to the size and scale of the Farm Credit System, I feel as if the Federal Government does have an obligation to assist the System with some type of loan package. I stress the word, LOAN. Any funds expended should be paid back in order that the Farm Credit System can remain a farmer owned cooperative. It is important to note that this assistance could materialize as a guarantee of the Farm Credit Bonds to insure investor confidence and direct loans to assist in losses WHEN and IF they are taken. However, certain requirements, such as an interest ceiling must be instituted by Farm Credit or the farmer will never benefit and our problems will continue unabated.

Mr. Hubbard, I must stress the point that if we approach the problem without insuring that the farmer benefits we are making a grave mistake. The illness must be treated, not the symptom. Financially stressed farm lenders are the symptom; excessive agricultural debt and interest rates are the problem.

Being an old school teacher, I do have a tendency to ramble but I do hope that my points can be understood.

Agriculture is vital to the well-being of this nation. We cannot afford for it to fail. This nation is constantly under fire to compete with other nations in the field of manufacturing and retail sales. We have succumbed, to a large degree, to the technology of other countries. This is still one of the few nations in the world which can produce enough food to feed itself and other nations. If we do not place top priority on this industry, we are making a terrible mistake.

I trust that my comments are received in the honest manner in which they are sent. I thank you for the opportunity to convey my thoughts and concerns to you and the members of the subcommittee.

DAVE HORNBACK, *President.*

ADDED COMMENTS FOR SUBCOMMITTEE FROM DAVE HORNBACK

Ladies and Gentlemen and members of the subcommittee, it is a pleasure to be able to address you today: However, it is not a pleasure to have to be discussing the plight of the American farmer. The traditional scene of a serene tranquil rural America where a family lives and teaches the American work ethic and the value of honest labor is unfortunately replaced by an air of stress, both financial and emotional. We are all aware of the depression of the American agricultural economy. The inflationary 70's, where Government, lender and borrower abused common sense and credit extension has been followed by the 80's with its droughts, increasing input costs, increasing interest rates and reduced commodity prices. The "buy now-pay later" syndrome has caught up with us and choked the life out of the farm economy.

The farmer has known for several years that things were bad all over but the problem was never really addressed. Now that the financial institutions are being affected, the problem has finally been realized. The Farm Credit System and commercial agricultural banks are only a mirror-image of the problem whom they serve. Our financial difficulties must certainly be addressed or we could see a financial catastrophe the likes of which have not been since the depression. We must be sure, however, that the results of any assistance to the institution protects the financial integrity of that institution while the person who should benefit, the farmer, does so.

To simplify the problem, if that is possible, there is too little income to service the $212 billion agricultural debt in this country at present interest rates. So we must either increase income or reduce the debt and the interest which has to be paid on that debt. As nothing indicates an increase in income, then we should consider the other portion—that of the interest rate and debt. Contrary to popular belief, the lender does not like high interest rates. Neither does he like foreclosures and having to acquire properties into his inventory. Lenders want to be lenders—not landowners. However, with the Federal Government operating at a deficit, the marketplace, the source of funds for lenders, has more demand than supply. Therefore interest rates soar. The financial institution is forced to pay more for funds in order to stay in the lending business. In order to be profitable, those increased costs are passed along to the consumer of the loan. With marginal to nonexistent net income, the American farmer quite bluntly cannot pay double digit interest rates anymore than this country could live with double digit inflation. Interest rates must come down and they must do so quickly. A year from now or two years from now will be too late. But an interest rate reduction is only a portion of the problem. The amount of debt, $212 billion, more than the national debt of many nations, appears to be excessive for the agricultural sector of this Nation . . . Kentucky Senator Mitch Mc-

Connell has proposed a plan for both interest and principal buydown which has merit. His proposal should be investigated and considered.

Gentlemen, if we were looking at a small portion of farmers who were facing problems, we could easily pass if off as poor management on the part of the farmer. Perhaps those people first affected could be placed into that category, but I can assure you that this is a national problem. Good managers are now adversely affected. We cannot afford to lose these people. They can manage their farms, and they can manage their finances. Unfortunately, they cannot control weather, interest rates and increased costs. Neither can the lender. Both the farmer and the lender need some form of relief in order to remain a world supplier of food and a sound provider of credit, respectively.

There is present legislation pending which addresses the problems facing American agriculture. I urge you to support it while giving serious consideration to the ideas expressed by Senator McConnell. The Farm Credit System and the farmer do not want a handout; they want a hand so that they can help themselves. We all have learned the hard way that the economic bubble can burst and if we are smart, we will all be more conservative in the future to avoid this situation again down the road.

My wife recently attended a meeting in Washington, DC. While she was there she bought some souvenirs for our children. One particular item, a pencil, complete with stars and stripes was of particular interest to my daughter. She discovered while looking at it, the following words——"Made in Japan." If you will, please think along with me. If you were to go into most American homes, you might find a stereo made in Japan, clothes made in Taiwan, wicker chairs made in Mexico. If this disgusts you, you could always turn on your Sanyo or Panasonic TV and watch a film which is supposed to take place in Los Angeles when in actuality it was shot in Toronto. If this really makes you mad, you could jump into your small American minicar which was really made overseas and drive around the block to the steel mill where you used to work.

What I am trying to say, in my inept way, is that we have seen ourselves outdistanced by foreign competition because we have placed ourselves in a non-competitive posture. We are rapidly becoming a nation which provides services instead of products. The one thing that we can do and do competitively is produce food. This industry is vital to the survival of this Nation. It may well hold the hope for future generations to come. We cannot allow this industry or those who serve it to fall by the wayside, victims of apathy.

Gentlemen, you will know that we are beyond help when you go to the grocery store to pick up a box of Cheerios, a can of corn or a package of hamburger meat and see the words—'Made, processed and financed in Japan."

Chairman HUBBARD. All right. Charles Magness?

Representing the thoughts from Jackson Purchase Production Credit Association.

STATEMENT OF CHARLES MAGNESS, JACKSON PURCHASE PRODUCTION CREDIT ASSOCIATION

Mr. MAGNESS. Thank you, Carroll. I appreciate your giving me just a moment. I don't have a prepared statement, and a lot of this is off the cuff.

Ray and Dave have already expressed some of the interest in the Farm Credit System itself here in the four States. I would like to remind you of one thing though. The Farm Credit System or the PCA portion of it; of course land bank had already been established in their earlier years, but in the mid-1930's, the Government did put funds into the PCA's. And through the farmer use, this cooperative type system, the farmers were able to repay the Government its proportion. Now this is a story sort of like like Chrysler's. And we have lived this way for 30, 40 years, whatever it might be. We have had a good organization. It has helped many a farmer, a young farmer, get started some way or another. True, with the way things are going today it is tough. Profit is the name of the game.

You have heard Mr. Schlader talk about the one concept. There have been some strong associations, and there have been some weak associations. We in the Farm Credit System belong to a network that we help each other out. This is the other portion of a cooperative sector of it.

Through some of these tougher loans, it has caused us to have to assist other organizations and it has also caused higher interest rates.

Now, if we could get some relief from this, this would help.

Chairman **HUBBARD**. What would you suggest?

Mr. **MAGNESS**. I do not know. The best thing I have heard here lately, and I sent to your office the thing that Mr. Schlader mentioned—the farm credit council made a proposal. I guess you would call it a holding company. This would take some pressures off the Farm Credit System and off the farmers. And I think this morning Mr. Shaw related to it. This is one idea that sounds feasible, really worth looking into to see if something could be developed from it that would assist the System and assist the farmers.

Chairman **HUBBARD**. How many foreclosures did you have last year here in the county——

Mr. **MAGNESS**. You mean in the purchase area?

Chairman **HUBBARD**. The purchase area, and Federal land bank.

Mr. **HORNBACK**. It is limited.

Chairman **HUBBARD**. But how many bad loans do you have outstanding at the present time, percentagewise, would you say?

Mr. **HORNBACK**. Well, they are all going to be bad if something does not happen. I do not mean to be facetious. I am telling you the truth.

Chairman **HUBBARD**. The farmers agree with you.

Mr. **HORNBACK**. We have a portfolio of the Federal land bank and purchase area of $47 million. Of that $47 million, at last count we had $600,000 in bank acquired property—those are properties upon which we had, unfortunately, to file foreclosure and took into inventory. We also had $1.8 million in what are called nonperforming loans or nonaccrual loans. That does not mean that all of those loans are bad. It simply means that because of some servicing action that had to be done, we simply had to go back out and reappraise our collateral. When we did that because of the depressed land prices, we found potential loss existed in those loans should the borrower not be able to pay. So if you are talking about the nonaccrual loans and the bank acquired property, you are talking roughly $2.4 million out of a $47 million portfolio.

Chairman **HUBBARD**. If the land value for a certain farm out here between Pottsville and Melber in Graves County was $2,000 an acre back in 1980, what would it be worth now?

Mr. **HORNBACK**. A dollar and a quarter. If it was worth $2,000 back then. What we have seen—I did not mean to be facetious. I just——

Chairman **HUBBARD**. Let us say that it was a real good tillable farm.

Mr. **HORNBACK**. I can equate that to actually what has occurred quite frankly. Back in 1979 and 1980, before we saw the downward spiral, a piece of property that in round figures would have sold at that particular time for $1,000 an acre, quite frankly you are probably looking at around $650 to $700 an acre at this particular point in time, if you could find a buyer. We have seen roughly a 30-percent reduction in land values in this area since the haydays of the late 1970's and early 1980's.

Chairman **Hubbard**. There are some good farms that years ago did bring $2,000 an acre in this county. I remember some of the deeds I have written.

Mr. **Hornback**. Thank God we did not finance any of those.

Chairman **Hubbard**. Not a lot but some. What about the land value in Graves County as you see it, Charlie?

Mr. **Magness**. Let me say this. I have seen the good times and the bad times, OK? I started out 25 years ago. I have seen the Jackson Purchase, PCA go from a high peak of, $90 million down to $35 million. Some of these loans have been shifted over to Farmers Home Administation. Some of them have come over to banks. The percentage of acceptable business, like Dave was talking about, now in the PCA will range around in Jackson Purchase something like 75 percent. At our last credit examination a recommendation of only about $60,000 worth of losses.

Now what will happen after the first of the year when we get going again with the type of crop that we have had, I do not know.

Chairman **Hubbard**. What percentage of bad loans do you have?

Mr. **Magness**. Well, it is about 1½ percent.

Chairman **Hubbard**. We have——

Mr. **Magness**. That was in loss type situations.

Chairman **Hubbard**. We have not heard from Livingston County, KY, yet, and we do have a prominent farmer from over there, R.O. Wilson, Jr. How many acres of farm land do you operate?

Mr. **Wilson**. About 1,400.

Chairman **Hubbard**. 1,400.

Mr. **Wilson**. My sons and I together operate 1,400.

Chairman **Hubbard**. He has been active in the farm bureau and other farm groups for years. What comments do you have about our farm credit problems or our farm economy?

STATEMENT OF R.O. WILSON, JR., GRAND RIVERS, KY

Mr. **Wilson**. Well, Congressman, this morning when I walked out of the house my wife said what are you going to say today and I said I do not know. I still do not know in view of what has been said here today. I think everybody is thinking along the same lines. This is a serious situation. As our commissioner of agriculture said this morning, if something is not done at the farm level there will be a lot of streets in this Nation where the grass is going to grow over during the next 5 years.

I am not so sure it has been mentioned here today, and I believe Mr. Hornback mentioned the Great Depression, I am not so sure that the years of 1932, 1, 2, 3, were the Great Depression. We may be in the Great Depression today or a greater depression, and this, I guess, a very crude, simple illustration, but I have seen corn sell for 13 cents a bushel. In 1932 and 1933, corn sold in our area for 13 cents a bushel. You could take this 13 cents that a bushel of corn brought, you could go down to the store with your 5 gallon coal oil can and you could bring home 5 gallons of coal oil, with even two or three pennies left in your pocket. Today it takes 2 bushels of corn to fill that coal oil can, and you do not have these two or three pennies left in your pocket. It takes over twice as much, twice as many bushels of corn today to buy 5 gallons of diesel fuel or coal oil as it took in 1932, 1933.

The farmers in our area, some of them are quitting on their own, some of them are being closed out. Some of them have said we have gone as far as we can go. They are throwing up their hands and telling their creditors, "there it is." PCA's and whatever the lending agency is, Federal land bank.

The more solvent operations are the farmers who have been in business for 30, 40 years; some of them ready to retire; some of them in business for 25 and 30 years. The more solvent farmers are the ones that are taking the apples out of the barrel, so to speak today, Congressman. They are drawing and they are operating on collateral and on land, on funds and machinery that they paid for 10, 15 years ago.

When the operating machinery or production equipment on farms today are worn out, there is no way on $2.40 for corn; $5 for soybeans; $3.50 for wheat; there is no way farmers can replenish their production equipment at those prices. At that point, when machinery wears out, farmers are out of business whether they realize it or not.

And going back to the 1930's, I do not mean to be just reminiscing, but earlier, you mentioned the PCA's starting back in the late 1930's or somewhere, and PCA's progressed as the farmers progressed. They went hand in hand. PCA's furnished the money, the farmers produced. They could produce at a profit, they paid their debts. Their Federal land bank loans were paid, Mr. Schlader, and Federal land bank, the PCA and the farmers all progressed in the last 40 years or so hand in hand.

Now the farmers are in this depression, and they cannot pay their interest or pay their principle. And, so to speak, you (the banks) are left holding the bag. Is this true? You are left holding the bag. So now what the answer is, I do not know. I have heard a lot of discussion. We need to have a price for our production. It merely boils down to the fact that we need to have a price for our production.

In my opinion, what we have I guess is what you would class a diversified operation. There is something wrong, where you were talking about the price of grain, where you were talking about the price of cattle or you were talking about the prices of hogs, tobacco, or whatever. Tobacco is a different story because it is regulated (and has been through the years) and the tobacco producers have controlled their production. So I assume if maybe some of these tobacco growers would take issue with me, but it appears to somebody who never grew a stalk of tobacco that they are getting maybe a fair return for their labor that they put into their tobacco today. But the other producers are not. For example, when we feed some cattle, and when there is 20 cents a pound—or $20 a hundred—20 cents a pound difference in a bunch of cattle that comes out of the feed lot 60 days ago and today, and this amounts on a thousand pound stuff, you are talking about $200 a head on a thousand pound choice or prime steer; and on 100 head of cattle, 100 head in a lot, that is $20,000. This is something that was beyond the farmer or the feeders control. But when he goes down to pay his operating cost or pay PCA, he is $20,000 short. And the lending agency is left holding the bag. This is where it has got us in a lot of this dilemma that we are in today.

Our present farm bill that has just been passed, whether the President signs it or does not, I personally do not call it a farm program. I think of it as a consumer's program. I think it should be named consumer instead of a farm program because I think it is a consumer program. I do not think there is any way it will help farmers. I am sure you worked on it hard and I am just speaking my piece, so to speak, Congressman. I think it is detrimental to our farmers and to our agricultural segment of our economy. I think it is detrimental.

We talk about cheap grain, cheap produce and pricing ourselves out of the world market. We set the world market. This program sets the world market. These other countries, Argentina and others, have undercut our price just enough to furnish Russia and other countries their soybeans. Japan and others have undercut our prices enough to get them sold.

There is approximately 3 cents worth of wheat in a loaf of bread. If the price of wheat to the wheat farmer was doubled, look what that would do for this wheat farmer. Look how much new wealth he'd have, so to speak, or what it would mean to the other business segments of our country. It increases every dollar's worth of raw farm produce sold, that multiplies about seven times. It would increase, with everything else remaining the same, it would increase the price of the loaf of bread 3 cents. And 3 cents on a loaf of bread is not going to kill anybody. But look what this would do to other segments of our economy. We have people out of work. It seems that we are more interested in keeping the people on the assembly lines and people in other countries employed than we are in our own country.

I want to refer to one other thing. I think it illustrates a point. When they constructed I-24 through Kentucky, they went across some of the land that we farmed. Sure, there was a four-lane bridge, of course, across the Cumberland River, one end of it is sitting where I grew corn the year before they started construction. That bridge was prefabbed in Japan; floated over here and set up there off of the barges with a rig out in the water.

Our steel mills in this country and millers were shut down and unemployed, and this whole project was financed with Federal and State money, 9 to 1. It was also Federal money that financed that bridge, so to speak, to the Japanese and our mills and mill workers were shut down at that time.

[The prepared statement of Mr. Wilson follows:]

Prepared Statement of R.O. Wilson, Jr.

This regards the plight of the American farmers and lending agencies. The economic condition of American farm families is as bad or worse as it was in the early thirties, during the depression days.

In reality this affects other business sectors. Farmers do not receive their fair share of the consumer dollar. Congress and the Senate should formulate a farm bill, not a consumer program.

Our present program is more consumer oriented than farm programs. Low interest loans are not the cure for the American farmers' problems nor those of the lending institutions that finance the farmers.

Federal Land Bank, Production Credit Association and other lending institutions have prospered through the years when agriculture has prospered. Due to the conditions of agriculture this is breaking the lending institutions, same as it is farmers.

Farmers receive ninety percent of parity for their produce. This is a big step in the right direction for farmers, Production Credit Association, Federal Land Bank and all other business and labor segments in the nation. The theory, "If our commodity prices are too high, they will price us out of the world markets," cannot be true. Our farm programs set the world market.

American farm families are living below the poverty level, trying to survive. Our present government seems more interested in financing other countries and not the American people who in return will repay the loans. This isn't true in foreign aid.

Chairman HUBBARD. I appreciate your comments. I am a "Buy American" enthusiast myself and know that we do seem to give a lot of business to Japan, Germany, France, and other countries while we too often neglect our own.

Mr. WILSON. We talk about the implement people being out of business and I believe a gentleman today mentioned about some businesses in the area down here being boarded up. There is going to be a lot more of that if agriculture does not get some help. And goodness knows, we are not asking for handouts. I do not think there is anybody in this room who is asking for a handout. We are asking for a livable wage, Congressman. All in the world we are asking for is a livable wage.

Chairman HUBBARD. Forgive me for taking too much time, Harold Rice, you continue to be patient. Do you remember the newsletter I sent out on January of this year and the results I mailed out in April which showed that about 55 percent of the people in western Kentucky are sympathetic to the needs of the farmers and 45 percent are not. How is that question worded? The question read, are you in favor of Federal tax dollars being spent to support agricultural programs to help our farmers? Gosh, I would have thought 95 percent would have said yes. Are you in favor of your Federal tax dollars going to help our agricultural programs to help our deserving farmers?

For example, think about those in Fulton County, the factory workers who work at Union City that do not have a job in Fulton County. Do you think they believe the farmers are in trouble when they think about Harold Rice and Austin Voorhees? No. Or over in Livingston County. And you know I am your friend and I like you a lot. But could I convince somebody over in Livingston County who works at, oh, a mill at Salem, that the farmers are in trouble when he thinks of R.O. Wilson and his 1,400 acres of operation? I know your problem. I know the prices are going down, and you just mentioned that you are dipping now into the bucket and pulling out apples that you thought would be secure for a long time. You are pulling those out to keep in business today.

Mr. WILSON. That is true.

Chairman HUBBARD. But the public out there, especially those Congressmen from urban areas, do not really believe that the farmers are in as much trouble as you actually are.

Mr. WILSON. Pardon me, but this is the thing that I think was good when you get Mr. Parris down here to hear this first hand, Congressman.

Chairman HUBBARD. That is right. Stan Parris does not represent a lot of farmers.

Mr. WILSON. This is maybe part of our problem, but through the years there has been a communication gap even at home, so to speak, between the rural population and the urban population. And you get into this more and more. I can see where Congressmen have a problem trying to represent a rural area in the House and dealing with the urban Congressmen.

Chairman HUBBARD. Some of you have said that not until urban people in Pittsburgh, Chicago Philadelphia, and New York have almost empty grocery shelves will they ever even realize there is a farm problem.

Mr. WILSON. This is true.

Chairman HUBBARD. Meanwhile, they read in the paper where there is over production.

Mr. WILSON. There is any number of farmers who are trying to pay their bills, making a living today, but are actually living below the poverty level as it is determined. They are actually living below the poverty level, trying to survive.

Chairman HUBBARD. There is no question in my mind about that. In fact you are sitting by a farmer who would not be classified as a wealthy farmer. I know that for a fact. Don Frick from out here in the northern part of the county. He and Randall Burchard, whom I hope will be back in a minute——

Mr. FRICK. He had to drive a school bus this evening.

Chairman HUBBARD. I am sorry. I did not realize that he had to leave. I would have called on him earlier.

Mr. WILSON. But I want to thank you, Congressman, for the opportunity of being here. I have enjoyed today. I mailed you a statement the first of the week. I hope you have received it by now.

Chairman HUBBARD. Yes; send it to us.

Mr. WILSON. I think it was mailed Monday.

Chairman HUBBARD. Fine. How do I ask this, but would you not agree that the mill worker in Salem or the unemployed person over at Grand Rivers would not be that sympathetic about R.O. Wilson, Jr., as a farmer?

Mr. WILSON. No. No. Some of those that have jobs, they do not realize this.

It is hard when some of those people—see, we are right close, Congressman, as you know, to the Calvert City complex, and there is a plant or two that shut down over there. The people are still working at the plants, who have jobs. They do not realize this, and when they go down to the store to fill their grocery baskets, they do not understand this problem.

Chairman HUBBARD. Thank you all for being here today.

Mr. WILSON. Pittsburgh Metalurgical employed about 1,000 people over there. And they sold the plant, whoever owned it, they sold the plant to a German outfit and what did they do? They shut the plant down. There were 1,950 or 1,960 employees who went home. They notified them that in 2 weeks your job would be terminated. They realized some of these economic things, but they still do not realize what the farmers' problems are. Thank you.

Chairman HUBBARD. Thank you, R.O. Wilson. We have three more who are present that we had on our list of witnesses. Then we will have the next group come up, and those will be the ones we do not have on our list. You have been kind enough to wait for your turn.

Harold Rice, you and your wife are longtime friends of mine. I appreciate your being here. I know you are a prominent, well-liked farmer down at route 4, Hickman, KY, near the Mississippi River. We will hear from you next.

STATEMENT OF HAROLD RICE, HICKMAN, KY

Mr. RICE. Thank you, Mr. Chairman. I feel like most of what I have to say is repetitious and a summary of what has been said. But I will give my views as I have been here for 6 hours. I want my 3 minutes.

Chairman HUBBARD. Absolutely.

Mr. RICE. I am Harold Rice from Fulton County, KY. I am a farm manager, a bank director of the Citizens Bank of Hickman and a farmer. I have been a bank director for 25 years and I have farmed for 35 years. I want to thank this committee for coming to west Kentucky for such an important meeting and would like to thank you for the opportunity for me to appear before you.

Our farm income has been on a decline for several years and has gotten dangerously low. It seems that Congress has taken the first step toward helping us, by recognizing the fact that the farm economy is on the verge of bankruptcy.

Many farmers and lending agencies, machine dealers, auto and truck dealers, agriculture suppliers, and retail merchants will go into bankruptcy or out of business if Congress does not do something to prop up our rural lending agencies; as well as come up with a workable farm program. Hopefully, this has already taken place.

Without this financial help, many farmers will not be able to get financed for next year. A lot of them are not broke but are having cash flow problems. I think this could be done by the Government lending agencies—the Federal lending agencies such as PCA, Federal land bank, FmHA, et cetera, lending enough money at a lower but reasonable rate of interest, with a longterm repayment period, possibly 5 to 10 years, or maybe even more than that; therefore, letting the lending agencies pass these terms on to the qualifying farmers.

Also, the commercial banks would need some sort of Government guarantee that would lower its interest rates and extend the repayment period of existing and new loans to the farm customers.

I realize that many people do not feel that the Government should help the farmer out of this problem. But as long as the Government puts embargoes on our grain and lets the State Department promote the clearing of land, growing of crops, and the building of grain storage, railroads, and docking facilities in foreign countries to help them grow and export better crops that take away from our grain markets, then the Government is obligated to help us farmers with our problems. Our lack of exports is one of the causes for our low farm grain prices.

Farmers are not responsible for all their financial ills. They are responsible for some, though. Government policies have caused us to lose at least 50 percent of our export market. Whereas, this has not caused all of our farm problems, the Federal Government along with low prices, high interest rates, inflation, floods, and droughts back to back, declining land prices, all have contributed to this agriculture credit problem. I realize some lending agencies have been overzealous in their advising and lending policies. They loan too much money to some farmers, helping them to expand too large and too fast. Also, some farmers thought they could borrow themselves into becoming wealthy. This might have happened if inflation and prices had remained high. Luckily the overzealous and greedy people were in the minority.

Most farmers and lenders are sound thinking people who do not expect to become wealthy at any stage of their lives, but who do feel that they are due a decent return on their investment and should not have to suffer due to a lack of capital, because of a few people who have set bad examples.

As far as the farm program is concerned, it seems to me that if each farmer had to lay out a certain percent of his land, say 10, 15, or 20 percent, it would lower our surplus of grain. This layout acreage could not be large enough to encourage foreign countries to increase their planting, so this acreage would have to be fine-tuned to a point of having a very small surplus. I do not believe the Government would have to pay for this layout ground, because the 80 or 90 percent that we do plant would bring enough money through higher prices to more than offset the loss in planted acres.

Some agriculture suppliers will complain about this, but if it puts the farmer in a better financial position, it will help all of our suppliers in the long run. From what I have read, too many Washington officials believe that if we get rid of one-half of the farmers, the farm problem will be solved. This is not so. We do not have too many farmers. We are planting too many acres in crops. If you put this many farmers out of business, most of them would go to the cities, and this would add to the unemployment problem.

Agricultural credit problems not only affect the farmers and their lending agencies and agriculture suppliers, but all of rural America, as well as the national manufacturing segment.

Farming uses more trucks, tires, steel, chemicals, et cetera, than any other segment in the United States. Some city people complain about farm subsidies. I do not like the subsidies either. But we should realize that by helping family farmers as well as other farmers, Congress is really subsidizing every American, because these farmers are supplying all of our people with the most plentiful and cheapest source of food in the world.

Some type of subsidy might be necessary until we work out these problems. Due to declining land values, property will soon have to be revaluated, therefore, putting higher taxes on our city properties. The loss of markets, the surplus and lower prices are beginning to hurt the better farmers and better managers as well as others. There is not an incentive to plant a crop, knowing that about all a person can hope for is a break-even deal or even lose money. Most farmers are coming to this part very fast. If we do not plant, America is in really big trouble.

When the farmer prospers, the United States prospers, because of the farmers' strong buying power. Therefore, I feel that it behooves all of America for Congress to help the farmers and their lending agencies back on their feet. We do not expect a handout, just extended credit for a time to work out of this problem.

This is the end of my prepared statement. I would like to add that the American people do not appreciate farmers and the food that they have on their tables, as the Europeans do. Those of us who were overseas during the war saw these people starving. Now, foreigners do not mind a farmer making good money. They pay at least a $4 or $5 a bushel subsidy on wheat just to help their farmers, because they know as long as that farmer survives, they are going to eat well.

This new farm program might help us in 2 or 3 years, but as far as the rest of this year, well, 1985 is gone, but I cannot see that it will be much help to very many farmers in 1986. I can see that it might help us with our exports in the future, but not in the near future.

Chairman HUBBARD. It is intended to, though.

Mr. RICE. Yes, I realize that. I hope I have not bored you with my thinking. That concludes my statement.

[The prepared statement of Mr. Rice follows:]

PREPARED STATEMENT OF HAROLD A. RICE

I am Harold A. Rice from Fulton County, Kentucky. I am a farm manager, a bank director of the Citizens Bank of Hickman and a farmer. I want to thank this committee for coming to West Kentucky for such an important meeting and would like to thank you for the opportunity for me to appear before you.

Our farm income has been on a decline for several years and has now gotten dangerously low. It seems that Congress has taken the first step toward helping us by recognizing the fact that the farm economy is on the verge of bankruptcy. Many farmers and lending agencies, machinery dealers, auto and truck dealers, agriculture suppliers, and retail merchants will go into bankruptcy or out of business if the Congress does not do something to prop up our rural lending agencies, as well as coming up with a workable farm program. Without this financial help, many farmers will not be able to get financed for next year. A lot of them are not broke but are having cash flow problems.

I think this could be done by the government lending the Federal lending agencies such as PCA, Federal Land Bank, FHA, etc. enough money at a lower, but reasonable rate of interest with a long term repayment period, possibly five to ten years, therefore letting the lending agencies pass these terms on to the qualifying farmers. Also, the commercial banks would have to have some government guarantee that would lower its interest rates and extend the repayment period of existing and new loans to its farm customers.

I realize that many people do not feel that the government should help the farmer out of this problem, but as long as the government puts embargoes on our grain and lets the State Department promote the clearing of land for growing crops, building grain storage, railroads, and docking facilities in foreign countries to help them grow and export their crops that take away our grain markets, then they are obligated to help us with our problems. Our lack of exports is one of the causes for our low grain prices.

Farmers are not responsible for all their financial ills. Government policies have caused us to lose at least 50 percent of our export markets. However, this has not caused all of our farm problems. It along with low prices, high interest rates, high dollar, inflation, floods and droughts (back to back), and declining land prices all have contributed to this agricultural credit problem.

I realize some lending agencies have been over zealous in their advising and lending policies. They loaned too much money to some farmers, helping them to expand too large and too fast. Also, some farmers thought they could borrow themselves into becoming millionaires. This might have happened if inflation and prices had remained high. Luckily, the over zealous and greedy people were in the minority. Most farmers and lenders are sound thinking people and do not expect to become wealthy at any stage of their life, but do feel that they are due a decent return on their investments and should not have to suffer due to lack of capital because of a few that have set a bad example.

As far as the farm program is concerned, it seems to me that if each farmer had to lay out a certain percentage of his land, say 10, 15 or 20 percent, it would lower our surplus of grain. This lay-out acreage could not be large enough to encourage foreign countries to increase their planting, so this acreage would have to be fine-tuned to the point of having a very small surplus. I do not believe the government would have to pay for this lay-out ground, because the 80 to 90 percent that we do plant would bring us enough money through higher prices to more than off-set the loss in planted acres. Some agriculture suppliers will complain about this, but if it puts the farmer in a better financial position, it will help all our suppliers in the long run.

From what I have read, too many Washington officials believe that if they can get rid of one-half of the farmers the farm problem will be solved. This is not so! We do not have too many farmers—we are planting too many acres in crops. If you put this many farmers out of business, most of them would have to move to the cities, and this would add to the unemployment problems. Agriculture credit problems not only affect the farmers and their lending agencies and agriculture suppliers, but all of rural America as well as the national manufacturing segment. Farming uses more tires, trucks, steel, chemicals, etc. than any other segment in the United States. Some city people complain about farm subsidies. I do not like them either, but we should realize that by helping family farmers as well as other farmers, Congress is really subsidizing every American because these farmers are supplying all of our people with the most plentiful and cheapest source of food in the world. Some type of subsidy might be necessary until we work out of these problems.

Due to declining land values, property will soon have to be revaluated, therefore putting higher taxes on city property.

The loss of markets, surplus and lower prices are beginning to hurt the better farmers and better managers as well as others. There is not much incentive to plant a crop knowing about all you can hope for is a break-even deal. Most farmers are fast getting to that point. If we do not plant, America really is in big trouble.

When the farmer prospers, the United States prospers because of the farmers strong buying power. Therefore, I feel it behooves all of America for the Congress to help the farmers and their lending agencies back on their feet. We do not expect a hand-out; just extended credit and time to work this problem out.

I hope I have not bored you with my thinking.

Thank you.

Chairman HUBBARD. No, indeed, the words of Harold Rice do not bore any of us. We know that you are a long-time farmer and a very successful farmer in the past. We appreciate your views. Thank you for waiting patiently here for 6 hours.

Next, Steve Story and then Don Frick. Steve Story is vice president of the Liberty Savings Bank in Mayfield. We hear from the lending side again, am I right that formerly you were the head of the Federal land bank?

Mr. STORY. Yes, I was with farm credit for 12½ years.

Chairman HUBBARD. The Federal land bank?

Mr. STORY. Yes.

Chairman HUBBARD. In Mayfield?

Mr. STORY. Yes.

Chairman HUBBARD. And other——

Mr. STORY. And in Louisville.

Chairman HUBBARD. Louisville?

Mr. STORY. Yes.

Chairman HUBBARD. We appreciate Steve Story being with us. And thank you for your willingness to give us your comments.

STATEMENT OF STEVE STORY, VICE PRESIDENT, LIBERTY SAVINGS BANK OF MAYFIELD, KY

Mr. STORY. Yes, thank you, Carroll. I appreciate being here. If it will not offend you, I am going to make my comments very brief. You have a copy of my prepared text. It has been covered by about, oh, any number of times today. There are some points that are worth repeating, though.

The one I would want to point out is that the problem is real. The problem is we do not have enough cash flow in the farm sector. We have credit problems of huge proportion, problems that have to be faced not in the long run but in the short run, with solutions that will shore up the problems today and then let us build on a little better foundation in the next 10 years.

When we went in the 1970's from $50 billion debt to $200 billion and when we took that debt from 8 percent to 12 and 13 and 14 percent, we built ourselves a debt problem that we are trying to live with today under our restricted economy. The value of the dollar once low, which gave us that debt, now shows up as a very valuable commodity, which is good, we are taught, for the general economy. But it has been very devastating for one segment and that is agriculture.

As we heard before, as agriculture goes, so do some rural communities, and it is not a very pretty sight. We can get Government aid. We can get Government grants. We can build streets, but we cannot replace the fact that normal annual income simply is not there in the pockets of those who produce it.

Let me just finalize by saying, certainly as a lender, credit decisions are somewhat difficult to make because often they are not favorable to the person requesting the loan. It is very difficult to look at financial statements where the debt asset levels exceed 50 percent and in many, many cases, and I dare say in the majority of the cases that is true. If you take a farm operation that is purely farm and not off-farm subsidized and the debt-to-asset ratio exceeds 50 percent and that 50-percent debt is at 12 or 13 percent, you have almost written a scenario for an operation that will not survive. Few farm operations will return 6 percent net return on their asset investment. Very few will do that. So if you have a 12-percent debt interest rate and a 50-percent debt asset, you have a very risky scenario. And this is not a high one. This is a very common one.

Now to put that into what I would say what we need to do today, we need to take very seriously the fact that farmers, one and all, are looking at a pretty bleak future. I do not want to be negative. I am a positive person. But to bring this thing into a positive focus, we have to look at where the debt is, who is holding it and what we are going to do about it.

We now find out that the Federal Government is becoming one of the largest lenders in the farm sector. I think maybe it is second, if I am not mistaken.

Now that money, along with that many private lenders, is in jeopardy of not coming back. I know in many States the Farmers Home Administration has delinquencies in excess of 70 percent. Now that is very, very high. It is highly unlikely that if we continue to call those loans, they are going to be successfully repaid.

At some point in time, and this goes back to our new farm bill, we are going to have to take a look at not making loans to farmers through the Federal farm bill and make grants to farmers. In essence that is what they were to begin with, because they could not be repaid. So all we have created is a sector of agriculture that had little chance of succeeding when the so-called loan was made, and we now deal with it in a situation where we have humility and damaged character, let us say.

So if you want my recommendation as to what might be looked at in the farm bill, I have read what I got in the paper. There are some good points in it. I am very happy that Congress recognized the need to allocate the funds for farm credit.

Chairman HUBBARD. $4 billion a year. $4 billion a year for 3 years for farm operating and ownership loans.

Mr. STORY. That is through the Farmers Home Administration?

Chairman HUBBARD. Through the Farmers Home Administration.

Mr. STORY. Well please let me make this point. A farmer who has credit problems, a farmer who has lost another crop, and mother nature has not been kind to us in the last 5 or 6 years, since 1978, she has caused us as many problems as our decisions both to lend money or to borrow it.

But to put it all together—if you take a farmer's financial statement, and if our solution is to lend that person more money when he already has more than he can possibly repay, if that is our solution, then we have used bad judgment in formulating the solution because it will not work. That has built part of the problem already.

Certainly my bank has farm loans, and the farm credit bank has farm loans. Some of those loans are not so large. But when you pile on top of that loan three or four disaster loans and some economic emergency loans, you come up with a portfolio of several different lenders that cannot be managed, and also that cannot be repaid.

I think the Federal Government will have to look in the near future, and I hope the very near future, at addressing its own loan portfolio. You are going to have to write down the interest rates; you are going to have to reduce some of the debt because you cannot collect it anyway; or you are going to have to say, okay, we will not try to collect it. There is any number of ways to define what you are going to do with it. But, you know, there are billions of dollars there, and they are not counted a loss yet either. But it is a loss and it has not been written into the debts I suppose.

That is all, Carroll.

[The prepared statement of Mr. Story follows:]

PREPARED STATEMENT OF STEVE STORY, VICE PRESIDENT, LIBERTY SAVINGS BANK, MAYFIELD, KY

It's a pleasure for me to be here to share some of my thoughts with this esteemed group, about agricultural credit problems facing borrowers and lenders in our community and country.

I know that we are all here because we have a keen interest in rural America and its future.

The events that have taken place in recent years paint a distressing picture of the agricultural industry. Let us not kid ourselves—agriculture is not in step with the rest of our economy. To the contrary, it is in a downward spiral with the bottom not yet in sight.

We have the most basic of basic business problems—negative "cash flow". I bring this up first because it is the disease that's so deadly to our industry. Today's pressing concern, both for farmers and their lenders, is not declining farmland values, but reduced cash flow.

This cash flow constriction is the disease we face; the other problems such as lowering farmland values, failed Banks, etc., are symptomatic. It is the cash flow situation that is infecting the farm economy. The ability to meet payments on debt already assumed. Nose-diving incomes coupled with elevating interest rates have put many farm operations between the proverbial rock and a hard place. Between 1970 and 1982, total farm debt increased from about $50 billion to around $200 billion. Most of these borrowed dollars were taken on during the decade of the 70's when we had a very weak dollar. Today, we no longer have a weak dollar. In recent years, the dollar has undergone a drastic rise in foreign exchange markets. We are all brought up to believe that a strong dollar is a good thing. For the economy as a whole it is, since it means we are able to purchase more in the form of imports for the exports we sell abroad. For individual sectors of the economy, specifically agriculture, a strong dollar can be a serious problem. Namely, it causes our exports to be reflected at a higher price; thus, reducing the amount sold and reducing cash flow.

Gentlemen, we are not going to help the agricultural economy until we cure the disease. In the past we have put all sorts of programs together which have only made the disease worse. We've been waiting for normal times to come back and for the problems to go away, and that won't happen. More credit to a family farmer who already has seen his asset value drop and his debt level increase to where they are nearly the same, is not even a good idea let alone a cure for the problem. If we expect this country's inflation rate to remain low as it is now and the value of the dollar to remain high, then we must see that two things happen. The debt level of farmers must be reduced and the interest rate they pay lowered significantly. Only then will the present day financial ruin of rural America begin to stop.

Land Values/Security Values—Lenders today, both government and private, find themselves with security positions less than what they would desire. Land values have dropped to levels as low as they were 15 years ago. In the Jackson Purchase counties, sales can be documented where the land brought only ⅓ the appraised value established at the time of mortgage. Auctions are held with no buyers other than lienholders. Lenders are sitting with billions of dollars lent to people with no means of repayment, secured with assets marketable today at only a small amount of what they once were worth. Lenders who have made agricultural loans are in trouble with these loans in particular and will continue to be until a cure for the cash-flow disease is administered.

Today, it is very difficult to constructively deal with the credit needs of a farmer. So many have unmanageable debt levels that even a crop production loan is too risky. Liquidations are so commonplace that land valuations cannot dependably be made. It is time to face the music. Rural America has paid more than its share in recent years to reconstruct the American economy. Farmers are not going to be able to weather the storm this time and survive on their own.

The federal government, I believe, has an obligation to assure, through constructive programs, that Americans have an adequate supply of nourishing food. Agriculture certainly is a feast or famine industry which requires government regulation.

Therefore, it is right that the same government that pursues consumer needs addresses and puts in place programs which deal effectively with the state of agriculture in today's economy. These are as bleak times as agriculture has seen in the last 50 years. It is very possible that a higher percentage of American farmers has been or will be displaced than ever before.

It is time for all of us to act and to face the issues forthrightly.

Again, let me express my appreciation to you, Congressman Hubbard, for allowing me to discuss these issues with your subcommittee.

Chairman HUBBARD. Thank you very much, Steve Story. We appreciate your being here and I knew you were knowledgable about this subject, not only because you work for Liberty Savings Bank, but because of your past history with the Federal land bank.

Mr. STORY. Thank you for having me. I appreciate it.

Chairman HUBBARD. Don Frick? Now here is a farmer, who like Thomas Larkins and R.O. Wilson, and Gordon Samples, has been to Washington. He went door to door in the Rayburn Building, the Cannon Building, and the Longworth Building, trying to talk to Members of Congress, person to person. He would wait outside their office until they had a rollcall vote, and then buttonhole them as they walked down the hall and talk to them about the farmers' problems.

I admire a young man like this who gives up a whole week of his time to come up to Washington and spend a lot of money in expensive Washington hotels to stay there in order to lobby for farmers.

Don Frick? I am sorry Randall Burchard had to go, but we will get his statement later. But would you give us yours now?

STATEMENT OF DON FRICK, BOAZ, KY

Mr. FRICK. Randall and I did go to Washington and we talked to a lot of Senators and a lot of Representatives. But after the Wednesday vote of the farm bill, I am kind of disappointed. We were told up there that it was not going to be a bandaid effect. And the way that I feel right now about the farm bill with lower prices, we are worse off than we were the day we went there.

I am 36 years old. I have a wife and four children. We operate a grain, hog, and tobacco operation in Graves County. I put my first crop out when I was 13 years old with my grandfather.

I have farmed every year since that time except for 2 years I served in the Army. Since October of 1975 we have been farming fulltime. In 1974 we purchased the farm where we live right now with a loan from FHA and the Federal land bank. Until the drought of 1980 we borrowed operating through PCA.

Since that time we have operated through FHA and the Bank of Benton. In 1978, 1980, and 1983 we suffered severe droughts, with 1980 being the most devastating.

Along with the droughts, the Carter embargo, price manipulation of our commodities, unconcern by lawmakers, and the Reagan administration, our expenses getting higher, a strong dollar depressing our exports, high interest rates, asset values declining, the foreign prices too low, we find the farm prices in America today.

First of all, I can see the farmer's view more than the lender's, since I am a farmer and I know the problems we are facing. I do know that both of us have a similar problem, cash flow, and it is guided by what farmers receive for their commodities. How can any of us solve a credit problem in agriculture without solving what caused it to begin with?

Until our Government and the American people decide to pay us a fair price for our commodities, the agriculture community will continue to get weaker and weaker. It could even die completely before anyone decides to make a change in foreign prices.

Something is very, very wrong when we as farmers are told by lawmakers, including the Reagan administration and lobbying groups like Farm Bureau Insurance Co., fertilizer and farm machinery lobbyists, that we do not even know what we need to survive. And we should not even have a referendum vote to decide for ourselves.

What would happen if the tables were turned and when we went to purchase something, if we set our price? If there has ever been a time for everyone in agriculture to join together for higher farm prices, it is now.

A few years ago when farmers saw this coming, no one would listen.

Chairman HUBBARD. Let me——

Mr. FRICK. Excuse me.

Chairman HUBBARD. Let me interrupt you and we will come back to you in just a minute, Don, if I could.

Mr. FRICK. I put my heart in this letter. Instead we were criticized. I ain't a crying man. But I will tell you what, if something ain't done, it is going to get bad.

A few years ago when farmers saw this coming, no one would listen. Instead we were criticized. We were labeled bad managers, buying air conditioners and heaters on our tractors, buying overvalued land, and we were told by the Government to farm fence row to fence row. Buying new pickups and homes like any other American enjoys.

Chairman HUBBARD. Don, we are going to——

Mr. FRICK. Nothing makes me madder.

Chairman HUBBARD. We are going to interrupt you at this point. You perhaps are the most effective witness of all.

Mr. FRICK. I have got to finish this.

Chairman HUBBARD. We will come back to you and your letter, if you will give it to us, will be included for sure in full in the record.

Mr. FRICK. Well——

Chairman HUBBARD. It is a serious situation and you are right, we do need to increase——

Mr. FRICK. Please, let me finish.

Chairman HUBBARD [continuing]. Support for our farmers.

Mr. FRICK. We were labeled bad managers for buying air conditioners and heaters on our tractors, buying overvalued land when we were told by the Government to farm fence row to fence row and for buying new pickups and homes like any other American enjoys. Nothing makes me madder than to talk to someone with a good paying 40-hour-a-week job, sitting in an air-conditioned office or automobile with a full stomach criticizing a farmer for being a bad manager. We are as professional in our occupation as a doctor or lawyer is in his, with one vital difference. Who could you live without?

The healthiest, richest person in the world could not live for long without food. We are being victimized by the foreign prices we have today. Our prices are not only dropping, our assets or values are declining, our net worth has dropped causing us to be in worse financial condition.

How many farmers will fall by the wayside before a change takes place? The Harkin/Alexander referendum was our best hope in Congress. Low rates were set at 70 percent parity, increasing 2 percent annually through 1996, with mandatory set-asides to control supply and demand. It is a farce to speak of free markets in our world today. We need a protection we can operate under, not lower prices or even the same law we have today, as other groups want us to operate under.

The United States sets the world market price, and we are forced to compete with other nations, subsidizing their farmers. The more efficient we become, the bigger the supply. The lower our price, then the more we have to produce to maintain cash flow to operate. The cycle has continued in this manner. We are not asking for charity, but a fair price. If we cannot sell for a profit, why should we be forced to grow it? In the past 2 years I have seen farmers foreclosed on by PCA, FHA, and banks. Let someone buy his farm and equipment for a lot less than what the original owner owed. Farmers are being forced to pay delinquency by selling assets vital to their farming operation, causing cash flow shortages.

Assets that are necessary for their success in the farming operation used just to satisfy their lender, so they can operate another year.

That is from the heart.

[The prepared statement of Mr. Frick follows:]

Prepared Statement of Donald L. Frick, Boaz, KY

I am 36 years old with a wife and four children. We operate a grain, tobacco, and hog operation in Graves County, Kentucky. I put my first crop out when I was 13 years old with my grandfather. I have farmed every year since that time except for 2 years when I served in the U.S. Army. Since October 1975 we have farmed full time. In 1974 we purchased the farm where we now live with a loan from FHA and FLB. Until the drought of 1980 we borrowed operating through PCA. Since that time we have operated through FHA and the Bank of Benton, Benton, Kentucky. In 1978, 1980, and 1983 we suffered severe droughts, with 1980 being the most devastating. Along with the droughts, the Carter embargo, price manipulation of our commodities, unconcern by lawmakers and the Reagan administration, our expenses getting higher, a strong dollar depressing our exports, high interest rates, asset values declining, and a farm price that is too low, we find a farm crisis in America today.

First of all, I can see the farmer's view more than the lender's, since I am a farmer and I know the problems we're facing. I do know that both of us have a similar problem; cash flow and it's guided by what farmers receive for their commodities. How can any of us solve a credit problem in agriculture without solving what caused it to begin with? Until our government and the American people decide to pay us a fair price for our commodities, the agriculture community will continue to get weaker and weaker. It could even die completely before anyone decides to make a change in farm prices. Something is *very very* wrong when we as farmers are told by lawmakers including the Reagan administration and lobbying groups like Farm Bureau Insurance Co. as well as Fertilizer and Farm Machinery representatives that we don't even know what we need to survive and shouldn't even have a referendum vote to decide for ourselves. What would happen if the table was turned and, when we went to purchase something, we set our price? If there has ever been a time for everyone in agriculture to join together for higher farm prices it's now.

A few years ago when farmers saw this coming, no one would listen; instead, we were criticized. We were labeled bad managers; buying air conditioners and heaters on our tractors, buying overvalued land, when we were told by the government to farm fence row to fence row, buying new pickups and homes like any other American enjoys. Nothing makes me madder than to talk to someone with a good paying 40 hour per week job, sitting in an air-conditioned office or automobile, with a full stomach criticizing farmers for being bad managers. We are professionals in our occupation as a doctor or lawyer is in his, with one *vital* difference; who could you live without? The healthiest or richest person in the world cannot live for long without food. We are being victimized with the farm prices we have today. Our prices are not only dropping, but our asset values are declining and making our net worth drop, causing us to be in worse financial condition. How many farmers will fall by the wayside before a change takes place?

The Harkin/Alexander referendum was our best hope in Congress. Loan rates were set at 70% parity increasing 2% annually through 1996, and mandatory set asides were to control supply/demand. It's a farce to speak of a free market in our world today. We must have protection we can operate under, not lower prices or even the same laws we have today. The United States sets the world market, and we're forced to compete with other nations' subsidizing their farmers. The more efficient we become, the bigger the supply and the lower our price, and the more we

> have to produce to maintain cash flow to operate. The cycle has continued in this manner. We are not asking for charity, but a fair price. If we can't sell for a profit, why should we be forced to grow it.
>
> In the past few years, I've seen farmers foreclosed on by PCA, FHA, and banks, and someone buys their farms and equipment for a lot less than what the original owner owed. Farmers being forced to pay delinquences by selling assets vital to their farming operation causes cash flow shortages the following year. Assets that are necessary for their success as a farming operation are used just to satisfy their lender so they can operate another year.

Chairman HUBBARD. That is appreciated, Don Frick. And perhaps the empty seat there also tells a lot about western Kentucky farmers on this December 20, 1985. The empty seat is a farmer who had to leave the hearing in order to go do one of the part-time jobs he must keep in order to make ends meet for his wife and children.

Randall Burchard and Don Frick, I repeat, spent a week with their wives up in Washington going from door to door in the three office buildings on the House side and I trust the Senate side, too, trying to lobby Members of Congress as to the seriousness of the farm problem.

Your letter and your efforts to read it without being emotional are noteworthy and understandable. But I repeat, the empty chair there between you and Ray Schlader, the farmer we did not get to hear from today but who sat here for 6 hours wanting to say something, has gone to do one of those part-time jobs he must do as a farmer.

In USA Today, there is a question about the farm bill. What can consumers expect? Now this is the USA Today people read in northern Virginia, in the area that Stan Parris represents, in that USA Today Building in Arlington, VA:

> Consumers did not get the cuts they wanted in Federal support programs for crops such as dairy, sugar and peanuts. But the expected record stocks of most crops are likely to keep a damper on market prices. USDA estimates the consumer price index for food will rise just above 2.2 percent over this year's level.

Remember, this bill passed the House 358 to 91. How did we get the urban Members of Congress? Let me read you their portion of the bill.

> Food stamps. Increasing funding about $100 million a year, less than 1 percent increase for the $12 billion program. Also makes participation in job placement programs mandatory for food stamp recipients. But lets States establish and operate their own placement programs. The average food stamp benefit amounts to 49 cents per person per meal.

And, of course, we know that there is abuse in this program. Check with your local supermarket carryout person.

Let me thank this group very much. I thank you Ray Schlader for driving down here from Louisville, today?

Mr. SCHLADER. Last night.

Chairman HUBBARD. We appreciate your coming all this distance, from Louisville, KY, to be here for this hearing. And we appreciate each of you, of course, who have driven from other places, including Hickman and Guthrie and other places.

At this point, we will ask who in the group, whether you have testified before or not, would like to say something? Mr. Nesler, you have been here all day. Would you come up, you who have been here and want to say something for the record at this agriculture hearing, would you do so?

Don Frick, more than you know you did a good job in presenting that, and I hope you will pass on to our friend Randall Burchard what I said.

You who would be our last, but important, witnesses, please give us your name and your address if you would for the record.

STATEMENT OF DALTON RALPH, HARTFORD, KY

Mr. **Ralph**. I am Dalton Ralph, of Ohio County, Hartford, KY. I farm——

Chairman **Hubbard**. Dalton has come all the way across the district coming from Hartford in Ohio County. Dalton, spell your last name.

Mr. **Ralph**. R-a-l-p-h is the last name.

Chairman **Hubbard**. Dalton Ralph.

Mr. **Ralph**. I have listened to a lot of statements made here today, and I cannot say that I disagree with but very few of them. But there is one thing that I would like to impress upon you, Mr.Hubbard, if I may.

It seems to me that there has been, between the credit systems here, there has been quite a bit of fear that something is going to be done to aid one segment of the Farm Credit System and maybe something not be done to aid their local banks and so on.

I would like to impress upon you, Chairman Hubbard, and others, that whatever is done, I would much rather see the money put through the farmers' hands and let the farmer take care of it, than the land bank or his local bank, PCA's. I do not really feel that it is the place of the Federal Government or that they should spend just whatever you were saying there, $4 to $6 million or whatever it is, or billions of dollars, whatever it is, to bail them out. I think every dollar of that needs to go through the hand of the farmer out here because that is where your original problem is. Let every dollar of that go through some farmers hands down here with the stipulation that he must pay off his bills with that money.

Chairman **Hubbard**. Thank you Dalton Ralph. Let me come back to you if you would like, but let me call on the others here. We will ask you to go next and each person please give their name and address for the record.

Mrs. **Anderson**. Chairman Hubbard, my name is Laura Anderson and I live here in Mayfield, Route 2, north of Mayfield. My husband and I farm. We are——

Chairman **Hubbard**. Spell your last name.

Mrs. **Anderson**. Anderson, A-n-d-e-r-s-o-n.

Chairman **Hubbard**. OK, there is also——

Mrs. **Anderson**. Pardon me for the cold.

Chairman **Hubbard**. That is all right. There is also A-n-d-r-e-a-s-o-n out at Route 2, Mayfield. But you are the normal spelling.

Mrs. **Anderson**. Right.

Chairman **Hubbard**. Laura Anderson. We appreciate your being here.

Mrs. **Anderson**. My husband and I farm here and we would be some of the smaller farmers that you would talk to. We farm 600 acres, just the two of us, and we are both college graduates from the University of Kentucky. My husband decided that he would rather be a farmer than work in industry. So he retired, you might say, from industry. We are both 37 years old. He is a full-time farmer, and then I farm part-time. I drive the tractor and the combine and grease a disc, just like he does.

But I think we are a hidden part of the problem that you are talking about in that at PCA he might be called a good account, in that he pays his debts. He was able to, from one year to another, through selling all the crops that he has and pay what he borrowed. But that is because we keep two separate checking accounts, and I have a good job as a management person with a large corporation. I pay the bills. I pay the house payment; I pay the utility bills; I support our child; I keep us in clothes, et cetera, et cetera. Because every dime he makes on the farm goes to pay the loan at PCA. We do not want a Government loan. We want to be able to go to a lending institution, borrow our money to run our business, and then pay our debts. We do not want somebody paying our debts for us. We want to be able to work in a free enterprise system where he can actually get paid for the work that he does. Essentially what I am doing is supporting his hobby, and we both love farming. That is what we want to do. There is just such enrichment in farming. It is like a godly thing to do, it was meant to be, and that is what we want to do. But at PCA, hopefully, they consider us a good account. We are one of the good numbers that you look at. But there is an awful lot of the segment in there I think that the wife or the part-time job supports the farmer and that is why he is able to stay afloat now. I really do not understand how the people who do not have a good paying outside job can stay afloat at all.

Chairman HUBBARD. Thank you very much, Laura Anderson. A graduate of the University of Kentucky, as is her husband. And they are trying to make——

Mrs. ANDERSON. We both graduated from the University College of Engineering in 1971.

Chairman HUBBARD. What local industry do you work at?

Mrs. ANDERSON. South Central Bell. I can tell you about the apathy of the people because only now do they realize what happened with the breakup of the Bell System. If we do not do something to help the American farmer it is going to be a greater tragedy than that was, which affected every American citizen.

Chairman HUBBARD. Thank you.

Mr. TURNER. I really did not come here——

Chairman HUBBARD. Let us have your name first.

Mr. TURNER. John Turner, Kirksey, KY. Anyway, I really did not come to say anything but after hearing all of this I wanted to say that I have farmed all my life except for the years I served in the service. I am 54 years old. I have a son who is 29 and one who is 31. I had a farm and acquired some land, and we listened to the past administrations. I can see Mr. Nixon now shaking those jaws and saying plant from fence row to fence row. My two sons and I decided that we would buy more land, basing this thing on the fact that it looked like it was a good thing for a long time.

But I also need to mention the weather. We have had 2 good years since 1978. 1978 was one of the bad ones. You cannot fight interest rates and weather. Of course, mother nature, I know Congress does not have anything to do with mother nature.

Chairman HUBBARD. Thank you very much.

Mr. TURNER. But——

Chairman HUBBARD. That is the only thing we are not responsible for.

Mr. TURNER. I pray every day and I say, Lord, my prayers must not get out of the bedroom.

Chairman HUBBARD. Forgive me. I had to interrupt. That is one of the things we are not blamed for. One of the few.

Mr. TURNER. But, I wanted to say this, I called your office a few days ago and said to the lady, and forgive me for not remembering her name, but "do you know how bad it is?" And she said, "yes, we do." And then the gentleman called me back and I talked to him for a while.

I read a piece in the farm paper that said if you owed FmHA $1, they could sell you out this year. I do not think I slept any that night.

I asked one of the people that we get money from if this should happen, how many can pay their debts to FHA, repay it through PCA or their expenses for this year and then pay their FmHA? He said, well, the county would probably be half sold out if they had to make every dollar of their FmHA loan.

Now, is FmHA going to sell out those who do not make all their payment?

Chairman HUBBARD. I would seriously doubt that. I can assure you one of the most sympathetic and wonderful people I know is Kendell Seaton. He is the Reagan administration's appointee to be the State director of the Farmers Home Administration. I have never asked him yet to call a needy farmer in western Kentucky that he has not done so. He has even driven to Henderson, Madisonville, and Russellville to meet with farmers regarding their specific problems. I could go on and on and give you examples about him. But Farmers Home Administration is not wanting to foreclose on farmers.

It certainly will not be universal.

Mr. TURNER. People are saying now that in the 1990's it will be better. But we cannot hold on to the 1990's at the rate we are going with the droughts. We need grant money.

Chairman HUBBARD. I wish you would do me the favor of meeting specifically with our counsel, Greg Carter. I would like to know your background because if you have a problem with Farmers Home Administration, I think I can help you.

Mr. TURNER. Well, they have never given me any trouble, but I am just saying I read in this book that they were going to foreclose, even if you lacked $1, they would sell out. If they do, they will be selling out a lot of our county.

Chairman HUBBARD. Well, they will not do that. Count on their using good judgment, common sense, and a little decency about the farm plight in our country today. But I wish you would meet with Greg Carter.

Mr. TURNER. I do appreciate you coming down here. I think this hearing would look a lot worse in January than it does now.

Chairman HUBBARD. Is that the feeling of others of you?

Mr. SAMPLES. Could I make one——

Mr. TURNER. It is going to be a lot worse.

Mr. SAMPLES. Could I make one comment about the——

Chairman HUBBARD. Forgive me for mentioning this but if you ask some of your neighbors over there, they will realize that your Congressman owned a farm over there for a couple of years. So I do know where it is. That is the last farm I owned.

Mr. SAMPLES. Can I make one comment about the statement he was making? I am familiar with what he is talking about.

Chairman HUBBARD. Yes, sir. This is Gordon Samples, for the record.

Mr. SAMPLES. The statement made by Vance Clark who is the head of FmHA in his Senate confirmation hearing was that anybody who was as much as $1 behind on his payments would have to come in—and this is the official statement which I have received in a letter also—and meet with the loan officer; or he would face foreclosure if he did not come in if he was as much as $1 behind. He made that statement——

Chairman HUBBARD. Well obviously this is an effort to get the people who are behind on their loans to come in and talk with the Farmers Home Administration about the problem. That would be my interpretation of that.

Mr. SAMPLES. I think it also very evident of his attitude toward it. Maybe not what will happen. I do not think his attitude will be followed through.

Chairman HUBBARD. No.

Mr. SAMPLES. By the Government as a whole. But I do feel like that is his attitude based on his statements.

Chairman HUBBARD. About like the mayor of Russellville saying if you do not pay your city taxes you will not have any city services. But if you live in Russellville, you have all kinds of city services, even though you do not pay your taxes. But that is not going to happen.

Yes, sir, Mr. Turner?

Mr. TURNER. I wish that you all could fix it to where people could get out respectfully. My sons say, OK, if I go out I have a bad mark against me for the rest of my life on circumstances that I could not help.

Chairman HUBBARD. Well, you can tell your son that the above might have been true 20 years ago, but in this day and time bankruptcy or financial failure are not looked upon as disgraceful, though sometimes inevitable. It is according to what occupation you are in, especially if you are a farmer.

Mr. RETTIG. I am Larry Joe Rettig from Bardwell, KY. I am also a college graduate from Murray State University.

Chairman HUBBARD. He has also lobbied in Washington earlier this year, and we appreciate your being here. Thank you for adding to the record.

Mr. RETTIG. We were in Washington trying to get a farm bill, but it looks like we failed, not one that we can live with anyway.

But recently I have heard some statements that I think are true. It starts off with:

> Wealth creates demand and supply follows. Earned income causes me to buy material goods. When I buy material goods I put people to work in the other sectors

other than farming. And those supplies will follow if there is a demand for those materials.

George Washington went broke as a tobacco farmer. He owed the Bank of England. But he found out that he could grow corn here in America and sell it to his neighbors at a cost of production plus a reasonable profit. That philosophy is instituted in our Constitution of the United States, as it was originally written. Now it has been amended, I understand, to the fact that we do not necessarily get a cost of production plus a reasonable profit.

Section 1 of the Constitution states that Government will intervene only in agriculture to value the products, the raw materials, or the agricultural products. And I understand that is not the philosophy now, since the cost of production is not at the loan rate.

All I ask is, let us get back to the original American system as this country was founded on. Let us go back to the Constitution of this United States and see what it was originally intended for the government to do with agriculture.

I think with the cost of production plus a reasonable profit, all the problems here will be solved. Thank you.

Chairman **Hubbard**. Thank you, Larry. I know you are a knowledgable young farmer. I am grateful to have several agressive young farmers in my district who are helpful to me from time to time. I would invite some of you others who are here for this hearing who have not written me as often as Forrest Burchard and Gordon Samples, Thomas Larkins or Larry Rettig to do so. Laura Anderson, what is your husband's name?

Mrs. **Anderson**. Tom.

Chairman **Hubbard**. Tom Anderson. It is almost worth a feature story that in this day and time college graduates are attempting to make a living with farming. I think it is wonderful and I am glad you all chose Graves County. Are you natives of this area?

Mrs. **Anderson**. Well, Tom is. I am originally from Louisville, and he turned me into a farm girl. I would not want to be anything else now.

But I would like to say, we use every bit of the education that we had at the University of Kentucky, to try to make it in farming today. We spend the winter months learning, reading, and attending seminars on how to market our grain, how to take care of it in the grain bin, and how to use the computers. We do everything we can to make a go of it, and it is going to take every bit of that and more to survive.

Chairman **Hubbard**. But you do pay your Production Credit Association monthly payments through what your husband gets from farming, and the other you make goes to feed the family?

Mrs. **Anderson**. Right. As far as Tom is concerned, he does not make a living at farming. He puts his heart and soul in it and pays his debt.

Mr. **Rettig**. I might also add that I am on the other side of the coin. I am a farmer that cannot borrow from PCA. I cannot borrow from my local bank. I had to get an FmHA loan this last year to operate. I was advised this morning to sell out this year so that they would not take it next year. I farm about 1,000 acres.

Mr. **Ralph**. Chairman Hubbard, I would like to comment something more there. These figures——

Chairman HUBBARD. Now this is Mr. Ralph of Ohio County.

Mr. RALPH. Figures have been pitched around quite a bit here about what percentage of farmers are in a serious financial situation. I have seen figures, I believe from the government, maybe as low as 12 or 15 percent up to some that people here have said are 20 or 25 percent. I am wondering if these figures really letting the general public know, production-wise, what percentage of the production in the United States is in trouble. If I am thinking straight, I would not be surprised if possibly 20 or 25 percent who are not in serious financial trouble right at this hour, is not representative of possibly 75 or 80 percent of the farm production in the United States.

In my estimation we are not talking about someone who owns 15 or 20 acres out here and holds down two or three public jobs and hobby farms. In my community, the farmer who is truly in trouble is a man who has a full-time job, has no time for employment otherwise, and has no income other than what comes in from his efforts in agriculture. And that farmer is in serious trouble, in my community, and I would like to see some figures as to just what they feel like the percentage of production would be that is in trouble in the United States instead of numbers.

You know, 12 percent, that is serious. But at the same time, how much more serious is it truly in production?

I would like some figures on that and I thought maybe Chairman Hubbard could give us some figures on that.

Chairman HUBBARD. I cannot right now but we will get that for Mr. Ralph. What is your mailing address in Hartford again?

Mr. RALPH. Route 3, Hartford, KY 42347.

Mr. TURNER. Could I say one other thing? Danny Cunningham took this to Washington. They count everybody with 7 acres as a farmer, right? Or is it more than that? I think it is 7. They count everybody as a farmer. OK, I started one day just in my mind, out in the field this summer working and planting corn, figuring out who in our community that were farmers that could farm if we were gone. I started with my dad who is 74 years old and he owns a farm that is not in debt. They said 50 percent of us were in debt. Then I thought of Jim Washer, some elderly widow women whose husbands have died. And it did not make any difference if the world turned around, they would never farm. They cannot. But they count all these people as farmers. But they have never looked on the side of a producer. The gentleman there who mentioned that made me think of that. When you go to count the producers in our area, you can count them on your fingers.

Chairman HUBBARD. Let me assure you that I realize what you say is right. It is difficult to convince a lot of people. Your factory workers over here at Calvert City, for example, think they are the ones who work hard. They do not think schoolteachers work that hard; they do not think ministers work that hard; they do not think farmers work that hard. It is an unfair conception when we know that indeed there are many months of the year it is a 7-day-a-week job.

Yes, sir, your name and address.

Mr. LARKINS. My name is Robert Larkins. I live at Bardwell, KY. I have been in farming approximately 36 years. I am going to kind of give you a history about what has happened. I moved to Kentucky in 1962 and started buying land. I raised a large family. In fact, we have seven children. I acquired 900 acres of land. In 1979 I completely paid for my land. Our equipment was completely worn out. We purchased about $80,000 worth of machinery. In 1979 I took my youngest son as a partner.

Then in 1983 I decided that I had burned out, that I would semiretire. So I took my son-in-law in as the other partner, rented them my land and they in turn rented some more land. They farm 1,125 acres.

Well, they had to have some money. And, as you know, in 1980 was the embargo. Prices started sliding. And then in 1983, as my son-in-law came in, we had a drastic drought.

That put me in the position to have to cosign on his notes. Both of them went to FmHA last year in January. It had taken from January until June to get any money. Now you are talking about your lending institutions and so on and so forth, and if I had not been in good standing with the bank in Bardwell, things might have been different. June is past corn planting time. They finally did get their money, and when they got their money they wanted the bare cuts, I mean cut it right down to nothing, of what they would need to make a crop on. They told them just the bare necessity they would have to have. And then FHA cut off that.

When combining time came, we got two combines, I told the boys, I will run the combine and it will not cost you anything, because I knew they were in trouble. We don't have the best land in the county but we have average or above average. As it progressed along through harvest season and got closer to the end of the harvest season, we had problems with the combine. One of them has 2,200 hours on it and about 200 pound of welding rod to be exact, and it started flying apart.

He went back to FHA. They said the only thing that we will let you have, the moneys begin to go short, is electricity for your house. Your food, your pickup truck, automobile, you do not need that. You do not need the food, automobile and so on and so forth to survive. All we are going to do is give you enough money for that combine repair and your electricity.

Now this morning I was a little late for the hearing because I wanted to meet with the boys. I said we have our crop out, sold part of it, put part of it in the bins. I said where are you standing? And they said at today's prices we are $20,000 apiece short. They said we made above average crops of the county, we saved, we have done everything else and we are $20,000 short apiece. They looked me eyeball to eyeball and they said "what would you do?" And I look you in the eye and I say "what would you do if you were in their shape?" What would you do? No living expenses. They have a combine that needs $5,000 payment on it. FmHA will not touch it because they bought the combine and FmHA said they really did not need it. There is, no way can you get 1125 acres with one combine.

So that is the kind of predicament two young guys are in. I was with them all fall running one of the combines and I know what they will do. They will work. Now that is the situation we have today.

Chairman **Hubbard**. Now the indebtedness of your son——

Mr. **Larkins**. The indebtedness is to the extent——

Chairman **Hubbard**. Is with whom, Farmers Home Administration?

Mr. **Larkins**. With Farmers Home Administration, and to get the son-in-law in I had to sign for him. So that he could get into farming. So I am hung on his end of it. And my son, of course, the machinery that he and I have gotten together, is either going to have to be sold or something done.

Chairman **Hubbard**. Well, let me assure you that Kendell Seton will be contacted by me on Monday, December 22. I would certainly urge you not to sell your farm, Larry Joe Rettig. I would urge you to be optimistic that something can be done. Your Federal Government is not a cruel, heartless institution that is trying to do damage to people like you all. You live in my mother's home county, and I realize you are trying to farm down there in the area where my maternal grandparents and great grandparents were farmers years ago, the Sheltons and O'Neals.

Mr. **Larkins**. But when you go down there to Clinton, that person does not care where you are from.

Chairman **Hubbard**. Well, that is not Kendell Seton at Lexington.

Mr. **Larkins**. That is right.

Chairman **Hubbard**. Who is a good friend of mine.

Mr. **Larkins**. See, Mr. Hubbard, last year the boys, like I told you, started January 1 trying to get an FmHA loan. In June they got some money.

Chairman **Hubbard**. Well, I would certainly encourage you to be optimistic about your farm. Greg Carter who happens to be a Carlisle County native knows you both, and he will see to it that we follow through on this commitment to you even Monday of this next week. It is not the best week to do business because it's Christmas week, but I predict to you that you will have a different attitude from the State office than you might have at Clinton.

Mr. **Larkins**. OK, one more thing. In 1979 my equity was $1,120,000. I am telling you this to show you another point. My wife and I raised seven children, and we paid off the land in 1979. When the boys came into business, any major decisions came through me. Now if I was smart enough and worked hard enough to acquire that kind of equity, and we are now talking about $400,000, there is something wrong somewhere I guarantee you.

Chairman **Hubbard**. Be assured of our help on this immediately. Just do not be pessimistic here at this preseason time regarding your particular situation.

Mr. **Larkins**. Well, if that will not ruin your Christmas, there's nothing that will. I guarantee you.

Chairman **Hubbard**. Well, I am trying to encourage you because there are people in the Federal Government who are anxious to be helpful to you and not to try to destroy your Christmas. Do any others have another statement? We really cut you short, not intentionally, but we were at a point in time when my neighbor and colleague needed to get back to northern Virginia.

Mr. **Burchard**. I just had another statement or two I wanted to make.

Chairman HUBBARD. This is Forrest Burchard.

Mr. BURCHARD. I thought because I had stayed around 6, 7 hours, I would just go ahead and make it.

I really wish that your colleague could have been here and heard Donald Frick and heard Robert Larkin here right from the farm tell it just how it is. I think he went back and he has probably forgotten right now half of what was said here. You know, probably some of it stuck, but, Donald Frick's testimony would have stuck with him.

Just two or three points I wanted to make real fast.

Chairman HUBBARD. We will see to it, and I will send you a copy of the letter if you will make notice of this, that the comments made during the time of Laura Anderson, Larry Joe Rettig, Robert Larkins, and Don Frick will be sent to him.

Mr. BURCHARD. I think it would have had an impact, especially if he could have been here and witnessed it.

Chairman HUBBARD. Right.

Mr. BURCHARD. But I just have two or three points I wanted to make. One thing that has not been brought up today just some figures. Farmers produce 70 percent of the raw materials in this Nation. Of course, it has already been established that is the only place we have any true wealth coming from is the raw materials. In turn, farmers turn around and buy 30 to 35 percent of all the manufactured goods of this Nation. So they are the basis of it.

The answer is not difficult. I have been to Washington two winters as you know, back earlier, we came telling this story in 1978 and 1979. And everybody you talk to says, well, the answer is not easy, it is difficult. Well the answer would be just easy to me, because in 1942 it was easy. When the bankers saw they were going to lose out, the Banking Committee and Commerce Committee got together and they passed that Stegall amendment and gave the farmers 90 percent parity for their commodities. It was easy then, so it looks like it would be simple to me now to do this. It worked in history from 1942 to 1952. No deficits or anything.

Now the Hitler regime, nobody wants to think about that, but you have to admit the man was smart or he would not have done what he did. He would not have gained that power and everything. The way he gained all that power in 8 short years, no silver, no gold, all he had were his raw materials from his land over there. In 8 short years he became a power in that country, and you know how history states he was a power. He nearly took over all the trading. So this bill that we have that I just read about earlier to get the farm prices down so we could get more trading going on—that will not hold water, and as somebody else said, we set the statistics.

One thing, and I will make it real short because I know I am taking time and you and I have been here all day without dinner and all these other people have, but I just wanted to read one other thing that came out of the Mayfield Messenger in Wednesday's paper. If you will remember when we came up there in 1978 and 1979, we said if we do not get a price for farm commodities, the Nation is going to suffer. You are going to see people unemployed. You are going to see things in bad shape. You said a while ago that the stock market soared the other day.

Chairman HUBBARD. Believe me, I am telling you what I hear on the House floor. When we rural folks that represent Carlisle County try talking about the plight of the farmers to people like my good friend Stan Parris who does not have any farmers—his are all urban government workers for the most part—they only see that the economy is in good shape.

Mr. BURCHARD. True. But just before the 1929 crash, the stock market went up, too, and land values and everything.

Now let me just read you the very highlights. I will not take but just another 10 seconds and I will be done.

Chairman HUBBARD. I understand totally what the price of land is around here.

Mr. BURCHARD. This was in Wednesday's Mayfield Messenger.

> The widest American measure of U.S. trade hit a near record $30.5 billion in the third quarter according to latest Government statistics. Housing construction was reported to have plunged 12.2 percent in November, the sharpest drop in 6 months.

Now see they have been hollering all along, if you get the interest rates down, housing starts and real estate will do good. "Housing construction was reported to have plunged 12.2 percent in November, the sharpest drop in 6 months, despite the lowest mortgage rate in 6 years." See, it was not the mortgage rate doing it, it is the farm economy that is doing it. That is why we are in debt $2 trillion.

And it says:

> Since 1982 the merchandise trade deficit has mushroomed. The United States is going into a net debtor Nation this year for the first time in 71 years. The Commerce Department officials said it is likely that the United States at the end of September was in debt to the rest of the world $33 billion.

I just wanted to add that to my statement before. Thank you for the other 2 minutes. Thank you, and thank you for coming and having the hearing.

Chairman HUBBARD. Well, you know I personally am very fond of you and know the success you have had in the past in farming and how difficult it has been for you in recent years.

We are just about winding this up.

Mr. SAMPLES. If I could make one more statement?

Chairman HUBBARD. Sure. How about some others that are still here? Gorden Samples, would you like to make a comment?

Mr. SAMPLES. I know I have taken a lot of time but I want to point out that I am taking my time, too.

Chairman HUBBARD. Thomas Larkins, why do not you trade seats with that young man right behind you?

Mr. BURCHARD. I will trade with him because I am going to have to go in just a minute.

Mr. SAMPLES. I missed a trip to go to be with my family for some Christmas celebration and I have got to still drive to Lexington tonight without supper. But I think this situation is more important than my being with my family and four children right now, because the future of my family and wife and four children is what we are talking about.

One other thing I want to point out. There has been a lot of—and I have felt it and maybe part of it is due, and I do not want it to be personal, but I have seen a lot of credence put to some of the testimony of bankers and credit people today. But I want to point out that most all of them were paid on a salary and they came here on their own salary. The farmers that are here are here at their own expense. It is going to cost me an extra vehicle driving 600 miles this weekend in order to be here plus the time I have lost at home. Plus the fact I am devoting my whole winter to working on this. I may lose my farm because I am not putting the time in it. But I know if I do not, 1 year from now I am going to lose it anyway. So I am just going to lose it a year in advance to try and fight for it and to fight for everybody else's farm that is here.

Now I have a plan that history has already proven will work, but I have trouble getting people in Washington to listen. Now I have presented this thing everywhere I have been. I have no problem getting a factory worker to understand it. We are using factory workers as an excuse. There is no problem to convince 150,000 farm equipment manufacture—workers in the United Auto Workers Union that are out of work because we cannot sell tractors. It is no problem to convince them that there is a farm problem. The thing is, them and us, cannot convince the people in Washington that there is a problem. I have been there. I have talked to them, I know, and I can see it. If you spend 3 days as a farmer in Washington, your whole perspective changes. Things are totally different there. The only way you can understand what is going on is to be out here. You cannot be the president of the Farm Credit System in Louisville making over $100,000 a year and understand how a farmer is hurting. The only way you can understand how a farmer is hurting is to be a farmer.

Now, I will not say I am the best farmer in the world and I will not say I am the worst. But I do not believe there are many inefficient farmers left. They have been gone for a long time. We are talking about the most productive people in the world that cannot compete because they say we have an oversupply. How can there be an oversupply of food when 55,000 people die of starvation every day; when 30 million Americans are underfed? Just watch the newsreels around Christmas time and see how many people they are giving food to and tell me that we have an oversupply of food. What we have is an under consumption, because we do not have the wealth to buy the food. The only way we can ever raise this Nation to what it should be and once was, is to value our food to where they can afford to buy it. It is too cheap. I can prove it not by supposition, not by what I believe, but by facts and figures of our Government. This whole formula of economy came based on figures of our Government, not from supposition. Economy is a science. As a science it has to be provable by math. If you cannot prove your form of economy by math, you have a philosophy, not a form of economy. This is a form of economy that will work. Congress has to see that we do not have money to subsidize farming. It is not there. The Government does not have it. The Government wants to answer everything with some dollars. If it was not for FmHA, and what you are talking about doing for these people and I may need it too, we could not exist right now in the current situation. But it is not the answer, it is a bandaid. The only answer is raising prices.

I have done a study on it. Now what we are doing when we say subsidize, what we are doing is taking tax money from the consumer and giving it to the farmer instead of letting the consumer pay for it to start with. Well, everybody knows the Government is not efficient in transferring money. It costs more to transfer it than there is to go out. What I am talking about is let the consumer pay his cost for food. That is the only fair way.

Right now, according to Government figures, or in 1980—my last figures, it took 12.3 cents of the consumer's dollar for food. This bill, based on most figures, would raise that to 15.6 cents, which is still below the level that the consumer had in 1950 of 18.6 cents. At that time there was 3.7 cents for interest in 1950, whereas in 1980 it was 33.9 cents. Taxes in 1950 were 21.1 cents on the dollar where in 1980 they were 27.1 cents. What we have done is lowered the consumer's dollar that he has to spend from 56 cents out of every dollar to spend for consumable goods to 26 cents. We have lowered the standard of living in this country through excessive debt. We are trying to borrow our way to prosperity and it will not work. It is a mathematical fact for every $1 you underpay agriculture, the system has to borrow $2 to keep people employed.

In 1942 to 1952, when a bill similar to this was in force, we had an employment rate of under $2 percent and a prime interest rate of 1 percent. We had a healthy economy. Until Congress addresses this problem and this problem alone, no other problem, until they address a bill like I am talking about, we are destined to becoming a weak Nation because we are giving our prosperity away.

Chairman HUBBARD. Why do not you, Gordon Samples, in addition to that 2-page letter I suggested you write, and that was only because I was wanting Members of Congress to read it——

Mr. SAMPLES. Right, I understand that.

Chairman HUBBARD. If I get a 7-page letter from a constituent about a housing problem over in Providence, KY, at the housing unit over there, I would probably ask Mary Martha over here to read it first. I challenge you and invite you to draw up a bill.

Mr. SAMPLES. The bill is already drawn up. It is ready. I will present it to you. I want to meet in person with you when I present it to you.

Chairman HUBBARD. Draw up a bill that you think would solve the problem and we will share copies of it with the House Agriculture Committee.

Let me give this young man a chance here to say a few words.

Mr. SAMPLES. I understand there is no way you can listen to all of us. That is why you have a staff. That is why I asked that Mary Martha come. I do not know if she would have come anyway. I asked in a letter that she come because after talking to her I think she has the intelligence to understand and she will have to advise you. That is what you have aides for, I understand that, and I appreciate the time I have to speak to them, too.

As I said in my last letter, I think you probably have the best staff in Washington. I compliment you and on your staff.

Chairman HUBBARD. Thank you very much. They are excellent. We receive more mail than you would anticipate.

Mr. SAMPLES. You receive a fair amount from me.

Chairman **Hubbard**. We hope you will continue. Your name and address?

Mr. **Ralph**. My name is John Ralph, and I am from Beaver Dam, KY, in Ohio County. This is my father sitting beside me here.

Chairman **Hubbard**. Forgive me for this personal aside but as you have driven all the way down here to what is my hometown, I want you to know that I grew up in Beaver Dam, KY. I was the son of the pastor of the Beaver Dam Baptist Church. I know where you are for sure.

Mr. **Ralph**. OK. Like I say, this is my father sitting beside me, and I originally started out when I got old enough to hold a job and trying to decide what I wanted to do with my life, went into construction. It was not really the first choice but it was something that I could make money at and the closest thing to grab to making a living.

I went to Arizona and traveled around some other places, Indiana, Illinois, working and I was making a living. I was not making a great living but I was making a living. I worked some jobs that I thought were really hard jobs. I was really working myself into the ground, and I had a hard way to go.

But Peabody Coal Co. you might say pulled the rug out from under the construction end of it for us. We did all their new construction, and so I took up farming with my dad. It seemed like the only thing left to go to. My dad had warned my brothers and me that farming really was not the way to go. He welcomed us as far as coming into farming operation, but he had wrestled with it for all his life. It has made me appreciate what farmers have to do to live. I understand this Anderson family over here, a young couple going into farming like that. That shows a lot of guts in my opinion. If I had any way, any way at all, to see any other way to make a living I would go to it immediately. But I am, or feel like I am, caged in by agriculture where that I have no way to go but stick with it and ride it out.

I think my father's situation is the same thing. I hope I am getting across the message that there is two sides to the story. Like this man beside me has said, you really do not appreciate the situation until you live it, and it does trap you when you get indebted to it. You owe people. If you respect yourself and want to pay your debts and what all, you do not have any other choice but to stick with it when you get that far in debt. You have to ride it out. There just seems to be no way to turn, and I do not see where there is any incentive for young people to get into it.

And that is another thing that I think is heading into a problem. It maybe bad to phrase it like this, but not only are peoples' equipment wearing out, but I think the majority of the farmers that are the producers of this Nation are getting up in the years. I do not think there is going to be young people to pick up the slack and take over where they leave off. Because if the young people have any amount of judgment about them and another way to turn, they will go to some other method of making a living. And I think that is a sad fact. That is really all I have to say. I did not come with the intentions of speaking, but it just seemed like I should say something.

Chairman HUBBARD. I appreciate very much your and your father driving that long distance from Beaver Dam to Mayfield. It seems like a short distance for Gordon Samples who is headed for Lexington shortly. But anyway, we appreciate your being here. Your remarks are appreciated and will be remembered.

Mr. SAMPLES. Could I give the statistics on his remarks? The average age of the farmer is about 57 and there are 62,000 farmers under the age of 30.

Chairman HUBBARD. Count on the fact if you want to go over to Murray State University and find out how many of the students over there are planning to go into farming. The few who do plan to go into farming are children of farmers who probably have a big farm already and the farm may be paid for by the time they get there, and they think that is a good way to make a living. But it is a serious situation and one with fewer and fewer farmers. There will come a time when the consumers will wake up to the fact that we have indeed neglected the farmers in the past too much.

We have reached the point where we are going to have to bring this to a close. My wife Carol and I are glad to be home, and glad to be back in our hometown of Mayfield.

Thanks to every one of you. Thanks especially to Greg Carter, our counsel; Mary Martha Fortney, our staff director; and Harold Garrison, the legislative assistant; Tony Kinne of my Paducah office; Gary Baldwin, the reporter over here who has been at it all day long without any break. We appreciate you and Mayor Virgil Gilliam.

Thanks also County Judge/Executive Dick Castleman for his hospitality, and to Jennie Hill, the mayor's secretary.

At this point we have heard from everybody in this room. We now can declare this hearing adjourned.

[Whereupon, at 4:25 p.m., the hearing in the above-entitled matter was adjourned.]

[The following material was received by the subcommittee for inclusion in the record:]

STATEMENT OF BETTY COOK, FARM WIFE, ON THE CRISIS IN AGRICULTURE

Mr. Chairman and members of the subcommittee. Thank you for visiting Western Kentucky and providing an opportunity for us to express our views. We appreciate your concern.

I want to first describe the business climate from a farmer's viewpoint. Essentially, the farmer is a small independent businessman, boxed in on both sides by large corporate structures that both sell to him and buy from him. Costs of production and farm income are determined by these corporations. The only other player involved in this business enterprise is the Federal Government. Federal policy sets the price of money borrowed by the farmer, who competes against us in both foreign and domestic markets, and how well our products sell once the large grain companies put them on the world market (as determined by the strength of the dollar and foreign policy).

The problems of the Farm Credit System and farm lenders in general are merely symptomatic of the breakdown of the current food system.

Before anyone can pose solutions, goals must be understood.

Obviously, the goal of the farmer is to stay in business. Less obvious are the benefits of preventing total corporate control of the food system, increased dependence on imported food, and control of our food supply getting into fewer and fewer hands.

Ownership of our most critical energy system is being taken away from the citizens and is gradually being held by the multinationals who hold no national allegiance. Our basic grain commodities, for example, are controlled largely by five large multinational grain companies. Too often, federal subsidy programs merely enhance the profits of these companies without providing stability to the food system. One might wonder if antitrust measures shouldn't be considered.

If Congress' goal is to allow this system to continue, they should pursue the present course and follow measures suggested by the current Administration. This course will virtually eliminate the small privately owned business known as the Family Farm. The most efficient food system this world has seen will be gone and will, most likely, be replaced by internationally controlled, profit oriented suppliers.

If Congress' goal is to stabilize, protect, and ensure the ability of this nation to control its food supply, we must take steps to provide income protection to farmers. The Harkin-Alexander Farm Bill was the government's cheapest way to do this. It provided production controls, guaranteed price stability, and provided security to lenders.

If Congress' goal is to leave these two options open for a while, the role of the government now is to shore up the Farm Credit System with federal money, provide government farm programs that subsidize agriculture, and continue with patchwork programs that avert crisis after crisis.

Once Congress' goal regarding the food system of the United States is established, actions in one of these directions will be simple enough.

STATEMENT OF RANDALL BURCHARD, MELBER, KY

First of all I would like to thank you all for giving me as well as other fellow farmers the opportunity to speak for ourselves. We need to just get farmers involved and stop this insanity of depending on others and other organizations to speak for us. Often others and other organizations vote against us on major legislation that would raise farm prices to help the farmers. We have so many that influence agriculture that are only interested in handling our products. The more they handle, the more they make. We have people and organizations that are only interested in how much fuel we use or how much fertilizer they can sell us. So these are the people that are making far more off of handling our product than we make from the 18 hour days and whole year's work we put into growing, harvesting, hauling, etc., it. There are dealers that make more off of the seed and chemicals that we buy while we are trying to survive with grain prices at 30 to 50% parity.

It is insane to keep growing crops at below cost of production. We say if we can sell it at a profit, we are ready and want to grow it. If we can't sell it at a profit, it is not wise to make the effort. We don't believe we have come to the place that we have to build our economy off of third world countries.

We don't believe in a free market. We don't believe there is such a thing as a free market. We believe that the economy of a nation has to be built within its own boundary. We also believe we can get out of this mess if we as farmers and we as a nation stop selling our products at a below par price.

It will depend on the time. We might discuss Mr. Reagan's views on the farmer. Mr. Reagan feels that farmers are only bad managers and that farmers should be exported and we should just forget that we have less than 60,000 farmers under the age of 30. Now if you can believe this, maybe we could just grow our food at the supermarket. That does seem to be what a lot of people think.

The bottom line is that maybe, just maybe, we can get farm prices up before this mess gets any worse.

If we could get farming on the road again, this would take care of the banks going under at a staggering rate and of so many farmers going under because facts are facts. When farming prospers, the whole nation will prosper.

DECEMBER 20, 1985.

SUBCOMMITTEE ON GENERAL OVERSIGHT AND INVESTIGATIONS OF THE HOUSE BANKING COMMITTEE:

My comments on agricultural credit problems are specific to the problems of the Farm Credit System. While I acknowledge the fact that the same problems exist in many rural banks and deserve your attention, because of lack of familiarity, I will not attempt to address that area.

Well documented problems of low farm income, decreased farm equity and huge amounts of bad farm debt have placed the Farm Credit System near the point of crisis. Failure of the Farm Credit system would have a ripple effect of tidal wave proportions.

Quick and sure actions are needed to accomplish the following:

1. Restore investor confidence in the system in order to lower the cost of money to the system.
2. Lower interest rates paid by farmers in order to stop the exodus of low risk borrowers from the system and stop the cycle of high interest-more bad debt-higher interest.
3. Insure that borrowers' Capital Stock is not frozen. This possibility is currently encouraging good borrowers to look elsewhere for loans.

I leave it to you to propose specific actions to achieve these ends, but encourage you to recognize the problem and act quickly before it becomes unmanageable.

I appreciate the opportunity to present my views to you on this important issue.

WAYNE MCATEE, *Cadiz, KY.*

[FROM THE PADUCAH SUN, DEC. 19, 1985]

FARMERS NEED SOME ANSWERS IN 1986

Sometime in life all of us have to deal, at one time or another, with such problems as fear, doubt, disappointments, heartache and discouragement.

Although these problems belong to man, they are contrary to our well-being and tend to defeat us.

The adjectives above are fitting words in describing the plight of the U.S. farmer as we enter into the coming year. A new count is taken at the beginning of each year, and no doubt 1985 will show a significant drop again in the number of family farms.

Statisticians tell us that each worker on the farm feeds himself plus about 80 others, but the real truth is that he can hardly earn enough to feed himself and his own family.

This whole fiasco is so complicated, so mixed up, that I make no pretense of having the answers, but the thing that worries me most is the fact that seldom do you hear mentioned the importance of the farmer making a profit. Certainly, no able-bodied American who can work has any right to expect a handout from his fellow citizens, be he a farmer, businessman or individual.

By the same token, no one has the right to expect the American farmer to provide food for him and his family at a price below the cost of production.

Our free-trade advocates tell the farmer, the shoemaker and the textile manufacturers to cut their prices and recapture our world markets. Not a simple solution.

How can an American farmer or manufacturer be expected to recover the cost of his inputs, pay his federal, state and local taxes, pay his employees a decent wage, keep up the necessary licenses, permits and insurance, donate to the local charities, sell his products in a manipulated world market, and survive? When I get to thinking about world markets, I am reminded of the times we have been sandbagged by grain embargoes.

Surely our farmers are producing more commodities than we can possibly sell for a profit. Does GM or Exxon continue to produce full throttle when their markets get overloaded?

Many of our policymakers feel that shaking out 2 to 5 percent of the farmers each year will eventually get production back down. I doubt it. Besides, if we go this route, our whole rural economy could get into such a tailspin that an all-out effort by Washington could not prevent a total financial wipeout.

At the moment, news accounts have indicated that over 75,000 workers have been idled by the slowdown of farm machinery sales alone. The real shocker, I believe, is that probably another 20 percent of our farmers and agri-businessmen would quit and sell out if they could ever climb back up to the break-even level.

In the beginning of the big depression of the '30s, some of the more financially-sound farmers bought their neighbors' land, mules and binders, unaware that the same fate of their fallen friends lay in store for them in the coming years. A debt-free farmer can survive about any situation—trouble is, they are too few.

This wreck is worse, in my opinion, than the public or even financial community realizes. The gravity of the hour is compounded by the fact that so many of our young people with farm backgrounds are unable to enter, or continue to pursue, their life-long ambition of producing food for a hungry world.

This much we do know: new thinking, new methods, new courses of action all lie on the horizon, and the man on the farm will somehow meet most of these challenges.

Maybe 1986 will send someone our way with the answers to help lead us back to a more normal and prosperous farm scene. Let's hope this happens.

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